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J. M. KEYNES' CONCEPT OF ECONOMIC SCIENCE*

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I

Recent attempts to reduce Keynes' economics to the general textbook level raise the very interesting question as to what after all are his views concerning the nature of economic science. If one were to accept the view of economics found in Paul A. Samuelson's *Economics, An Introductory Analysis* (1948) as representative of Keynes' position, then the latter's economics would turn out to be a highly formalized body of thought. As is well known, however, "Keynesian economics" and "the economics of Keynes" are not always one and the same thing. When Samuelson defines economics as a science which "can concern itself only with the best means of attaining given ends," he is of course restating the Robbinsian definition that "Economics . . . is concerned with that aspect of behavior which arises from the scarcity of means to achieve given ends."[1] While such a highly formalistic view of economics may satisfy both Robbins and Samuelson, it is considerably removed from the view of economics which underlies Keynes' work. His economics is what he describes as a "moral science," that is to say, a science which never fails to emphasize the fact that economics, like other social sciences, is in the final analysis concerned with an explanation of actual human problems.[2] When Keynes defines economics as an "interpretation of current economic life," or as a study of "the economic society in which we live," he gives preference to a view of economic science which, though less broad than that of the historical and institutional schools, is nevertheless not nearly as narrow as the view of economics held by those who find the essence of their science in mathematico-logical analysis.

When Keynes entered Cambridge in 1902, ideas about the nature of economic science were well summarized in John Neville Keynes' *Scope and Method of Political Economy* (1890) and Alfred Marshall's *Principles of Economics* (1890). These views stressed economics both as a study of pure theory and as a body of

* In the preparation of this paper the writer has benefited greatly from conversations with Dr. Dudley Dillard of the University of Maryland and Mrs. Louisa Gardner Dillard.

[1] P. A. Samuelson, *Economics*, p. 595, and L. Robbins, *An Essay on the Nature and Significance of Economic Science*, 2nd ed., p. 24.

[2] J. M. Keynes, *The General Theory of Employment, Interest and Money*, p. vii, and *Essays in Biography*, p. 294.

concrete generalizations which had a great deal to contribute to social betterment. Cambridge economics was at this time a unique combination of the abstract and the humanistic.[3] Sidgwick, the elder Keynes, Marshall, and others could move with ease from the consideration of a highly abstract question of pure theory to some very concrete issue of the day. If Cambridge economics appeared at times to be lost in the rarified atmosphere of high abstraction, it was equally evident that at other times it could come down to earth to deal with the less precise matters of daily living. To be sure, the Cambridge economics to which the younger Keynes was introduced in the early years of this century was far from being as realistic as some of the opponents of economic orthodoxy would have liked it to be. But, in spite of its limitations, the economics of Sidgwick, Edgeworth, and Marshall commanded the respect of a large circle, and was in a flourishing state when the younger Keynes turned from his mathematical studies to the less precise science of economics.

It is quite clear from a consideration of Keynes' basic views relating to the nature of economics that he works within the Cambridge tradition. There is in his work the same emphasis upon a hard core of pure theory which dominates the whole of the upper reaches of economic inquiry. Keynes, like Marshall, is known to many readers as a specialist in the field of pure or abstract economics. His *General Theory* overshadows everything else that he wrote. Furthermore, like his predecessors in the Cambridge school, Keynes reveals a strong preference for a deductive approach to economic analysis. Although it may be said that he is more aware than some of his orthodox predecessors of the historical trends in economic life, nevertheless Keynes, true to the Cambridge tradition in economics, is not very strongly attracted by historical, cultural, or sociological analysis. As with Marshall, he might deplore the excesses of the mathematical economists, but he could never bring himself to adopt the more sociological or culturalistic approach of a Hobson, a Veblen, or a Marx.

Along with the other members of the Cambridge school Keynes realizes that there is much more to economics than just the field covered by pure theory. Surrounding the core of pure theory is a rather indefinite realm of analysis which Neville Keynes described in his study on the scope and method of political economy as the field of "concrete economics."[4] Concrete economics, not being satisfied with merely deductive analysis, supplements pure theory by providing economic generalizations which relate primarily to a given period or a given state of society. Marshall drew attention to the same matter by making a distinction between the "foundations" of economics and its "superstructure."[5]

[3] Maurice Dobb presents a brief summary of the characteristics of the Cambridge economists in his article on "The Cambridge School" in the *Encyclopaedia of the Social Sciences*, Vol. V, pp. 368–371. This article was written before Keynes' *General Theory* appeared. In 1935 Dobb regarded J. M. Keynes as a member of the Cambridge school.

[4] J. N. Keynes, *The Scope and Method of Political Economy*, 4th ed., pp. 142–145. The elder Keynes distinguishes between "concrete" and "applied' economics, the former being concerned with the application of general principles to particular data and the latter dealing with solutions for concrete problems.

[5] Alfred Marshall, *Principles of Economics*, Preface to the 8th ed., p. xiv.

The superstructure of economics is erected on a foundation of general or universal principles, but it does not itself possess any universality since it purports to explain only the operations of a particular economic society. Following in the footsteps of his father and of Marshall, Keynes writes about levels of analysis which extend from the bare bones of pure theory to the more complicated but much less precise interpretations of the real economic world. Like his Cambridge predecessors, he seeks to erect on the essentials of pure theory an inductive superstructure which will bridge the gap between pure and applied economics. For Keynes as for Marshall economic theory of the pure variety is only preliminary or introductory to those more inductive economic studies which are the ultimate goal of the economist's analysis.

If Keynes' over-all views relating to the nature of economic science are basically similar to those of other members of the Cambridge school, the question then arises, Wherein does he differ from Sidgwick, Edgeworth, Marshall and other exponents of neoclassicism? If Keynes clings to his father's distinction between "abstract" and "concrete" economics, how does he improve upon the latter's generation? It is now a widely held view that the younger Keynes' work amounts to something of a revolution in economic thinking. Economists today speak and write about the Keynesian Revolution or the New Economics of Keynes.[6] They do not mean to imply, however, that Keynes has some radically new ideas relating to the general nature of economics as a science, or that he has deserted the Cambridge school for, say, the institutional or historical school. What these economists are saying is that the bottle may be old but the wine is definitely quite new. Keynes has poured a new content into the inherited molds of pure and concrete economics. He has taken Marshall's "economic foundations" apart, rebuilt the substructure of economic science, and then erected a superstructure of economic interpretation which was only hinted at in various places in Marshall's works. It is now clear that Keynes has done much more than merely reshuffle the Cantabrigian cards. He has also developed novel ideas like those of Hobson, Gesell, and other exponents of economic heterodoxy. Although the final result is to many economists a strange mixture of Cambridge economics and some theories similar to those found in the "underworlds of Karl Marx, Silvio Gesell or of Major Douglas," Keynes himself saw nothing incongruous about his combination of orthodox and heterodox ideas.[7] On the contrary, he appears to have regarded himself as representative of the most recent step in the further development of Cambridge economics.

II

Since Keynes' early views about the nature of economics were greatly influenced by Alfred Marshall, the latter's views will serve as a useful point of departure for a study of Keynes' opinions on the same matter. Marshall de-

[6] See S. E. Harris, ed., *The New Economics, Keynes' Influence on Theory and Public Policy*, and L. R. Klein, *The Keynesian Revolution.*

[7] *The General Theory*, p. 32.

fined economics as "a study of mankind in the ordinary business of life."[8] This definition is so general that it may be made to include a study of economic life anywhere and at any time. Marshall, however, had no special interest in any country but England in the last quarter of the nineteenth and the first quarter of the twentieth century. His economics turns out to be a study of mankind in the business of making a living in a capitalistic economy such as was found in England from 1875 to 1914. What Marshall actually does is to restrict his definition of economics until it becomes a study of the competitive capitalism which reached the pinnacle of its development in England about the time that he published his *Economics of Industry* (1879). His method of expanding the definition of economics is to work out first the "foundations" of his science and then to move on to its "superstructure." He explains that his first volume on the principles of economics is only a general introduction to the study of economics, whereas the second volume, which never appeared, was to have dealt with the superstructure of his science. Marshall intended to develop various levels of economic analysis which would extend from the precise analysis of pure theory on the one hand to the complex analysis of the concrete economic system on the other hand.

Marshall very significantly points out that the economist's shifting from the foundations of economics to its superstructure is not just a matter of introducing reservations to pure theory. He is aware that much more than a simple transfer is involved. Somewhere along the line, as the economist moves upward in his analysis toward the real economic world, he has to make a fundamental intellectual adjustment. This change in analytical approach involves substituting a new framework of analysis for that which was found useful in the lower levels of pure theory. Pure theory, Marshall points out, is only an introduction to economic studies. He goes on to say that "it is especially needful to remember that economic problems are imperfectly presented when they are treated as problems of statical equilibrium, and not of organic growth. For though the statical treatment alone can give us definiteness and precision of thought, and is therefore a necessary introduction to a more philosophic treatment of society as an organism; it is yet only an introduction."[9] What Marshall had in mind is quite clear. As the economist ascends the ladder of scientific analysis, moving towards an interpretation of the complex flow of real economic events, he finds it necessary to substitute a new view of the economy as a "social organism" for the preliminary view of it as a "statical equilibrium." In other words, on higher levels of analysis he has to use a new framework of interpretation which makes room for many of the data of concrete economic life not considered by pure theory.

At this point in his thinking Marshall was on the verge of constructing a theory of the capitalist economic order which would have been applicable to English conditions in the half-century running from 1865 to 1914. He was about to provide an explanation of the era of economic development which co-

[8] *Principles of Economics*, p. 1.
[9] *Ibid.*, p. 461.

incided with his own life-experience, and in an interpretation of which his principles or "economic foundations" would have been very useful. Unfortunately, Marshall found himself unequal to the task. All that we now have to go upon are a few scattered references to what the superstructure of his science would have been made to include had he been able to develop it. He did explain that, whereas his first volume on principles dealt with "the theory of stable equilibrium of normal demand and supply," in his projected second volume normal action was to have been replaced by the concrete action of the real economic world. "Normal action falls into the background," Marshall wrote, "when Trusts are striving for the mastery of a large market; when communities of interest are being made and unmade; and, above all, when the policy of any particular establishment is likely to be governed . . . in subordination . . . to some campaign for the control of markets. Such matters cannot be fitly discussed in a volume on Foundations: they belong to a volume dealing with some part of the Superstructure."[10] Here Marshall dropped the matter. In doing so he failed to develop a theory of the capitalist economic order within the new organismal framework of analysis to which he made reference in the preface of his *Principles*.

Marshall's thinking about the two fields of economic analysis, the one relating to the foundations of the science and the other to its superstructure, always remained in a somewhat unsettled state. At first, as Keynes tells us in his biographical sketch on Marshall, the latter had planned to write a number of monographs on special economic problems and then to compress these studies into a general economic treatise. It turned out, however, that Marshall reversed this procedure and never succeeded in raising his exposition of the superstructure of economics to the level of his work in the field of pure theory. In spite of all his efforts he did not get much beyond thinking of the superstructure of economic science as something of a catchall into which various specialized studies could be placed.[11] As a consequence of his failure to work out the implications of his view of the economic system as a "social organism," Marshall was unable to provide that much needed unity for his concrete economic studies which would have given them something of the scientific status possessed by his work in the field of pure theory. But where Marshall failed Keynes enjoyed more success. It is to Keynes' credit that he sharpened the whole analysis relating to the superstructure of economics by providing the necessary unity for empirical studies of the economic system. In Keynes' work this unity takes the form of a theory of the capitalist order in the light of which concrete economic studies are given their full meaning.[12]

[10] *Ibid.*, p. xiv.

[11] For a further development of this point see Marshall's discussion in *Memorials of Alfred Marshall*, edited by A. C. Pigou, pp. 20–21, and also his references to pure and applied economics in *Principles of Economics*, pp. 37 n. and 460–461.

[12] Many economists have felt the need for a theoretical system that would unite the various studies lying outside the field of pure theory. Lionel Robbins emphasizes the need for some kind of unity which would prevent "applied" or "descriptive" economics

III

Keynes, like Marshall, starts off with a very general definition of economics. He takes economics to be an "interpretation of current economic life."[13] This broad definition is soon narrowed, however, so that economics becomes a study of "the economic society in which we live."[14] Since the society in which Keynes lived was basically capitalistic, it is not surprising that his economics turns out to be an interpretation of "an economy of individualistic capitalism."[15] He was more specific than was Marshall, who started with a very general definition of economics but never reached the point of actually declaring his science to be a study of the way in which economic life is organized under the system of individualistic or laissez-faire capitalism. In taking economics to be "the interpretation of current economic life" or a study of "the economic society in which we live," Keynes occupies a position midway between the formalism of Lionel Robbins and the institutionalism of the heterodox economists. Robbins emphasizes the formalistic aspects of his science when he states that economics is a study of "that aspect of behavior which arises from the scarcity of means to achieve given ends."[16] Keynes, the man of action, could find little intellectual satisfaction in Robbins' formalistic approach, although there is much in the latter's work with which he could agree. Nor did Keynes find himself attracted by the broad cultural approach of a Sombart or a Veblen. Like other economists in the English classical tradition, he did not go so far as to make his science a study of the economic aspect of human culture, as do the institutionalists and their followers. In this connection Keynes was much closer to Marshall than to Hobson or the Webbs. This close adherence to the Marshallian position undoubtedly accounts for some of Keynes' antipathy to the work of Marx, who was a forerunner of both the historical and the institutional schools.

In developing his views on the nature of economics Keynes follows Marshall by making use of the idea of various levels of economic analysis which vary from the most formal at the one extreme to the most realistic at the other extreme.[17] Keynes explains that at the bottom of the scale are found the bare bones of pure economics. This type of economics is concerned with what he describes as "comparatively simple facts which are known with a high degree of precision." At this low level of analysis the primary aim of the economist is to "imagine and pursue to their furthest points the implications and prior conditions of comparatively simple facts."[18] The economist endeavors to reduce his

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from degenerating into "either mere accountancy or into amateur technology." (*An Essay on the Nature and Significance of Economic Science*, 2nd ed., p. 42n.) He does not, however, indicate what this unity might be except to say that specialized economic studies should be related to "the economic system as a whole." Robbins provides no theory of the economic system as a whole similar to Keynes' theory of the capitalist order.

[13] *Essays in Biography*, p. 207.

[14] *The General Theory*, p. 3.

[15] *Ibid.*, p. 317.

[16] Robbins, *op. cit.*, p. 24.

[17] *Essays in Biography*, p. 191n.

[18] *Ibid.*

analysis to constructions of pure form. As he rises above the level of pure economics, the facts of economic life become increasingly less simple and less precisely known. Economic interpretation grows more realistic but also more difficult to handle. The logical schematism of pure theory is now clothed with generalizations which owe much to the economist's "practical wisdom" and his wide acquaintance with the facts of the real economic world. Finally, at the top level is found "economic interpretation in its highest form," which constitutes the economist's ultimate goal. Keynes explains that this high-level analysis provides an economic interpretation of the complex and incompletely known facts of experience. It presents an interpretation of that "current economic life" which Keynes regards as the final goal of economic studies. This high-level economic analysis, based as it is on Keynes' "amalgam" of logic, intuition, and wide acquaintance with the facts, not only moves far beyond the realm of pure theory but also leads one a long distance toward the establishment of "useful results."

Keynes did important work at various levels of economic analysis. At the lowest level he provided his pure theory of output and employment as a whole, while at the top level he worked out his empirical interpretation of the current phase in the development of the capitalist system. His theory of the most recent era in the evolution of the capitalist system is much less developed than his pure theory of employment. This is not surprising when one considers Keynes' intellectual background and his training as an economist. Cambridge economics has always been much stronger in the realm of pure theory than in that of more concrete economic interpretation. Alfred Marshall and others gave Keynes a thorough training in the foundations or general principles of economics, but they did not prepare him equally well for a study of the superstructure of the science. Marshall had little to say about the economic system as an emerging process or historical continuum. He was therefore ill-equipped to introduce Keynes to the kind of economic thinking which is necessary for the development of a theory of the capitalist order. Keynes might have been better prepared for the higher levels of economic analysis had he made a thorough study of the work of Marx, Veblen, Hobson, and other exponents of economic heterodoxy. In spite of the limitations imposed by a traditional, neoclassical training and later, by a busy life, Keynes made considerable progress in developing these higher levels of economic analysis where pure theory merges into a more empirical interpretation of the actual economic system.

Keynes' work at the lower levels of economic analysis was not intended as a substitute for the pure theory which had been developed by earlier economists. He is quite explicit in stating that much of the pure theory of his orthodox predecessors has an enduring value, and that "it is impossible to think clearly on the subject without this theory as a part of one's apparatus of thought."[19] What

[19] *The General Theory*, p. 340. Elsewhere Keynes states that "I was brought up in the orthodox citadel and I recognize its power and might. A large part of the established body of economic doctrine I cannot but accept as broadly correct. I do not doubt it." See his article on "A Self-Adjusting Economic System," *The New Republic*, Feb. 20, 1935, p. 36.

Keynes accepts from earlier economists is their theory of the individual firm, which assumes a given volume of employed resources and then explains the distribution of these resources between different uses under equilibrium conditions. Orthodox theory did not raise the question as to what it is that determines the actual level of employment of resources. It was merely assumed by the orthodox economists that all available resources would be employed. Keynes abandons this assumption and makes a problem out of what was taken for granted by his orthodox predecessors. He wants to know what it is that determines the actual level of employment of available resources, since in the modern world this level fluctuates widely. It is for this reason that he describes his goal at the lower levels of economic analysis as "the pure theory of what determines the *actual employment* of the available resources."[20]

What Keynes does, in effect, is to graft on to the inherited pure theory of the individual firm or industry a theory of output and employment as a whole. He finds it necessary to enlarge the received field of pure theory, because it proves to be an unsatisfactory stepping stone to higher levels of economic analysis. Keynes points out that, since Marshall's pure theory relates to a commodity economy or an economy of refined barter, it necessarily ignores the "peculiar properties of money as a link between the present and the future."[21] The result is that the doors to a broader interpretation of the concrete economic order are for the most part closed to the orthodox economist. In developing his pure theory of employment Keynes makes certain that he avoids the pitfalls to which his orthodox predecessors fell victims. His theory of employment is constructed within the framework of a monetary economy which takes account of money as "a subtle device for linking the present to the future." The central doctrine in Keynes' explanation of a monetary economy is his theory of expectations. The basic assumptions of this theory are that the future is not "fixed and reliable in all respects," and that business expectations, since they are liable to disappointment, are capable of influencing the present. Keynes' theory of expectations leads to a consideration of highly sensitive liquidity preferences, instabilities in the flow of real investment, and wide fluctuations in output and employment as a whole. On the basis of these and related ideas he constructs his well-known general theory of employment which "can be summed up by saying that, given the psychology of the public, the level of output and employment as a whole depends on the amount of investment."[22]

What is especially significant about Keynes' theory of employment, as compared with Marshall's theory of the individual firm, is that it opens rather than closes the way to analysis on higher and more concrete levels. As E. A. G. Robinson has pointed out in his review of Keynes' life and work, the latter developed his theory of employment as a tool to aid him in explaining the func-

[20] *The General Theory*, p. 4.

[21] *Ibid.*, pp. 292–294.

[22] J. M. Keynes, "The General Theory of Employment," *Quarterly Journal of Economics*, Feb. 1937, p 221.

tioning of the mature capitalistic economy.[23] The major problem of the capitalistic system, according to Keynes, is the lack of sufficient investment outlets to absorb the planned savings of the upper income groups. What Keynes needed was a corpus of pure theory which would throw some light on the role of investment in economic life. His theory of employment, with its attention centered on investment as the most significant single factor influencing the level of output and employment, meets this important theoretical need. Furthermore, Keynes' interest in the role of investment in economic affairs provides the bridge between his pure theory and his more inductive interpretation of the actual capitalistic system. As we shall see, it is Keynes' treatment of the investment problem which unites the various levels of economic analysis running from his pure theory of employment to his concrete theory of the capitalistic order. Our analysis will reveal that there was in Keynes' mind a much greater unity or coherence than is evident in his many scattered writings. He had visions of a unified thought system which, unfortunately, he put on paper only in a very fragmentary form.

IV

So much for Keynes' work in the field of pure theory. What remains to be investigated is his work on those higher levels of economic analysis toward which his pure theory points. It is on these higher levels that Keynes develops his theory of the capitalist order which not only makes use of his general theory of output and employment but which also goes far beyond it. At this point in his theorizing Keynes is concerned with an explanation of the concrete economic system. He finds that the isolation of a few factors and the study of their interrelations is not enough for the purpose at hand. The economist, says Keynes, must go beyond the logical analysis of pure theory to combine logic with intuition and a wide acquaintance with the facts. He has to turn to "practical wisdom" or intuition for guidance as to what is most significant in the "extreme complexity of the actual course of events."[24] The logic of pure theory is useful in unravelling the complexities of economic life once these complexities have been placed in some kind of an analytical framework, but logic comes into service primarily after the major outlines of the problem have been intuitively grasped. In other words, logic is analytical but never selective, as is Keynes' "practical intuition." Of course, intuitive insight must be grounded in what Keynes refers

[23] E. A. G. Robinson, "John Maynard Keynes, 1883–1946," *Economic Journal*, March 1947.

[24] *The General Theory*, p. 249. Here Keynes explains that the constructions of pure theory are necessary first approximations in the study of actual problems, but they cannot take account of a detailed complex of facts. The examination of actual problems along the lines suggested by pure theory makes them more "manageable." On the next level of analysis, Keynes points out, "our practical intuition (which can take account of a more detailed complex of facts than can be treated on general principles) will be offered a less intractable material upon which to work."

to as a wide acquaintance with the facts, for there is always the danger that intuition may draw more heavily upon fancy than upon fact.

As Keynes moves above the level of pure theory he introduces his concept of the economic process or the historical continuum which supplies him with a new framework of interpretation.[25] For short-run purposes he uses an equilibrium framework of analysis by the aid of which he analyzes those short-run changes in economic activities which result in pushing the rate of new investment to the point where the marginal efficiency of capital in general approximates equality to the rate of interest. This equilibrium approach, however, is found by Keynes to be unsatisfactory for the type of economic analysis which seeks to include more than the limited number of isolated factors considered by his general theory of employment. When he wishes to cover a wider range of factors, Keynes thinks of the economic system in terms of an economic process. He then moves from the equilibrium of pure theory to a consideration of the "psychological equilibrium" of a particular phase in the evolution of the capitalistic system.[26] It is this psychological equilibrium or balance between various economic classes which is the center of interest in his theory of mature capitalism, just as "the position of equilibrium" between the marginal efficiency of capital and the rate of interest is the focal point in his general theory of employment.

Marshall likened the concrete economic system to a social organism, but the term "organism" is much too biological for Keynes. He follows Alfred N. Whitehead in preferring the term "process," which he uses to describe the actual economic system.[27] This system, as Keynes sees it, is an economic process which is passing through a number of developmental stages. Currently we are in an "era of transition from economic anarchy to a regime which deliberately aims at controlling and directing economic forces in the interests of social justice and social stability."[28] It is this current "phase of capitalism" which is Keynes' special concern on the higher, more concrete levels of economic analysis. He provides his interpretation of "the kind of system in which we actually live" against the background of an era of transition from one stage of capitalistic development to the next stage. Since this era is like Whitehead's "event" which incorporates within itself the past, the present, and the future, it is not surprising to find Keynes writing that the economist should "study the present in the light of the past for the purposes of the future."[29] This is precisely what he attempts to do when he is developing his theory of capitalism on the higher levels of economic analysis.

[25] This new framework of interpretation is discussed at length in the writer's article on "The Philosophical Basis of the New Keynesian Economics," *Ethics, An International Journal of Social, Political, and Legal Philosophy*, July 1948.

[26] J. M. Keynes, *Monetary Reform*, p. 29.

[27] *Essays in Biography*, pp. 90–91 and 286. R. F. Harrod calls attention to the close relations between Keynes and Whitehead in his article on "Keynes, the Economist (1)," in *The New Economics, Keynes' Influence on Theory and Public Policy*, p. 66.

[28] *Essays in Persuasion*, p. 335.

[29] *Essays in Biography*, p. 170.

Interpretations of the capitalist process revolve around considerations of such matters as the theory of capitalist development, the class organization of a capitalist society, the breakdown of capitalism, and the role of government in a capitalist economy. We can briefly analyze Keynes' theory of capitalism in the light of these four basic questions. Although he is well aware of the phases or eras through which capitalism has passed, Keynes offers no theory of capitalist development. There is nothing in his explanation of capitalism which is comparable to Marx's or Veblen's technological interpretation of the course of capitalist development.[30] Keynes very largely ignores this question, and concentrates instead upon an interpretation of the "present stage of human affairs." He has much to say about class organization in contemporary economic society. According to his interpretation, the many different classes in a modern capitalist society are divided into the two major categories of the productive (or active) and the unproductive (or inactive) classes.[31] The productive classes are mainly concerned with "enterprise," while the unproductive classes, the rentier, have "accumulation" as their main interest. As long as there was a proper balance between enterprise and accumulation, the economy could function satisfactorily; but, unfortunately, in the current phase of mature capitalism accumulation tends to gain the upper hand as against enterprise. The rentier are successful in preserving their share of the national income by maintaining high interest rates. These high interest rates discourage enterprise, and result in low rates of investment accompanied by low levels of output and employment.

The breakdown of capitalism occurs when the heavy hand of the inactive classes interferes with the full functioning of the economy. To make matters worse, the governing classes, by failing to understand the nature of the problem, persist in policies which only serve to support the rentier classes and to perpetuate the chronic stagnation of business. An understanding leadership, Keynes feels, would strive to correct the unbalance between enterprise and accumulation, but such leadership is difficult to discover. This is why he describes the breakdown of capitalism as "nothing but a frightful muddle, a transitory

[30] Although Keynes was well aware of "the increased complication of the technical processes of manufacture," (*Monetary Reform*, p. 8), he makes no use of these facts to create a theory of secular development. His failure to develop such a theory may be explained in part by his preoccupation with "demand" as opposed to "supply." His theory of employment is based upon a new interpretation of aggregate demand. "It is on the demand side," Keynes explains, "that we have to introduce quite new ideas . . ." (*General Theory*, p. 294). Had he been more concerned with supply and the technology underlying it, Keynes might have been more interested in explaining the course of capitalist development. His interpretation of economic affairs was more immediate in its scope than the interpretations of Marx and Veblen, who thought in terms of long-run developments leading eventually to the reconstruction of economic society. Keynes' position is well stated in the opening paragraph of *The Means to Prosperity* (1933), where he explains that "in fact, our predicament . . . comes from some failure in the immaterial devices of the mind, in the working of the motives which should lead to the decisions and acts of will. . . . Nothing is required and nothing will avail, except a little clear thinking."

[31] *Monetary Reform*, pp. 11, 38, 70, and 156.

and an *unnecessary* muddle."[32] The breakdown is not made inevitable by the push of technological developments, as Marx and Veblen would have it. Instead, it is the result of misunderstanding on the part of short-sighted politicians and ultra-conservative civil servants who continue to preach the gospel of laissez-faire in an age which calls for greater "collective action."[33]

Keynes' theory of the role of the state is also quite different from that of Marx and other exponents of economic heterodoxy. The state's role, in Keynes' opinion, is that of a "balancing factor" which seeks to preserve the proper "psychological equilibrium" between the various economic classes.[34] Whenever there is the danger that the inactive classes are about to take for themselves too large a share of the national income, the government steps in to correct this situation. It levies high income and inheritance taxes to weaken the operation of the hereditary principle in the transmission of wealth and the control of business. Or the government benefits new wealth at the expense of old, and arms enterprise against accumulation, by depreciating money and keeping interest rates down. This latter procedure was followed in the nineteenth century, but where there is a scarcity of new investment outlets, as is the case today, the depreciation of money is not enough to restore the balance between the productive and the unproductive classes. The government then seeks to restore the balance by lowering interest rates and creating new investment outlets. Eventually, however, if the pure interest rate were to become zero, the problem of balancing enterprise against accumulation would disappear along with the rentier as well. At such a time the state would still be concerned with many other problems of economic balance. There would be the problem of equating the risks and the returns on new private investments having doubtful prospective yields, and also the problem of balancing the wants of the current generation against the needs of future generations.

Keynes' theory of the capitalist order plays a very important role in his thought system. It provides the nexus between his work in the field of pure theory and his proposals with respect to actual economic problems. It is a mistake to assume that the economist moves directly from pure theory to the field of applied economics, where general principles are modified to meet the requirements of the actual data of real life. Between pure and applied economics lies the economist's theory of the economic order, into which are fitted his generalizations from the field of pure theory. This theory of the economic order provides a unity or frame of reference for the field of applied economics without which the applications of pure theory tend to degenerate into an in-

[32] *Essays in Persuasion*, p. vii.

[33] *Ibid.*, p. 319. Elsewhere ("Democracy and Efficiency," *The New Statesman and Nation*, Jan. 28, 1939, p. 122) Keynes explains that "the obstacle lies . . . in our rulers—first of all in the personnel of the Cabinet, and secondly in the personnel of the heads of the Civil Service. They spend their time, not in forging chains for us—far from it—but in finding plausible reasons for not doing things which public opinion almost overwhelmingly demands."

[34] *The General Theory*, p. 230, and *Monetary Reform*, p. 29.

discriminate handling of a wide variety of unrelated problems. Unfortunately, many economists fail to elaborate the theory of the economic order which canalizes their thinking as they go about making use of the generalizations of pure theory. In some instances the presence of such a theory is not even admitted; in others only a few fragments of any such theory are made available to the reader. Even Keynes is not very explicit about the theory of capitalism which runs like a single colligating principle throughout his life's work. He does, however, provide enough so that his theory of the economic order may be brought together without too much difficulty on the part of his readers.

Keynes has not drawn attention to some of the problems to which his thinking leads when he makes use of his concept of the scientist's intuition. Although economists can agree on the results of their logical analysis, they do not readily reach agreement about the results of their intuitive understanding of the facts. If one accepts Keynes' definitions and also the logic with which he strings these definitions together, then he can also accept Keynes' conclusions in the field of pure theory. It is easy to see why there is considerable agreement with Keynes in respect to his "general theory" but much less agreement with his interpretation of the evolving capitalistic system or with his proposals for handling concrete economic issues. If one does not accept Keynes' intuitive understanding of the course of economic events, then he will very likely reject Keynes' theory of capitalism and also his suggestions for the handling of actual economic problems.

All economists employ both logic and intuition to some extent in developing the theory of the economic order which unites their work in the fields of pure and applied economics. But they are not always willing to admit that their work shows the influence of both intuitive and logical analysis. This is true of some of Keynes' followers, who have much to say about his pure theory of employment but little to say about his theory of capitalism. These economists appear to believe that the only problem is one of securing a clear understanding of Keynes' pure theory. When this goal is achieved, the investigator is supposed to be prepared to step directly into the field of applied economics. Other economists go beyond Keynes' pure economics to make use of a theory of capitalism, but they do not focus attention on this theory. It is clear that, although such a theory underlies their work, it rarely comes to the surface where it can be examined and criticized by the reader. In general Keynes' followers fall considerably behind their master, who pushed boldly beyond the realm of pure theory to construct a theory of the capitalist order.

V

It is quite clear from the preceding analysis that Keynes' thinking about the nature of economic science falls into a clear-cut pattern. Although he never wrote extensively on the question of the nature and scope of economics, Keynes always had in mind a very comprehensive view of his science. The following diagram presents in brief form his ideas relating to the content of economics:

- The Science of Economics
  - Pure Economics
    - The Theory of the Individual Firm or Industry
    - The Theory of Output and Employment as a Whole
  - Concrete Economics
    - The Theory of the Economic Order (Theory of Capitalism)
    - The Field of Applied Economics

The above diagram shows that Keynes divides the science of economics into two major fields of interest, the first one being concerned with pure economics and the second dealing with the concrete or empirical aspects of the science. He further subdivides the field of pure theory into the theory of the individual firm or industry on the one hand and the theory of output and employment as a whole on the other hand. The first subdivision of pure theory is concerned with the operations of the individual firm and the distribution of the product resulting from the use of a given supply of resources. This first type of pure theory is primarily concerned with the allocation of a given supply of resources under the equilibrium conditions of full employment. The second subdivision of pure theory deals with fluctuations in output and in the amount of employed resources. It endeavors to explain what it is that brings about fluctuations in the levels of output and employment which vary from full employment to much less than full employment. Keynes is careful to point out that there are no contradictions between these two subdivisions of the field of pure economics. On the contrary, they complement each other. He explains that when the level of full employment of resources is reached "the classical theory of the individual firm comes into its own again from this point onwards."[35] His criticism of the first subdivision of pure theory is not that it contains any logical flaws, but that it cannot solve many of the problems of the actual world because its premises are not sufficiently grounded in reality. Working with a different set of assumptions, Keynes expands the inherited field of pure theory so as to make it include new general principles which are found useful in dealing with the economic problems of the twentieth century.

The field of concrete economics is divided by Keynes into two parts, the first dealing with the theory of the economic order and the second with the application of economic principles to concrete problems of the economy. His theory of the economic order presents a much broader interpretation of the functioning of the capitalist economy than does his theory of output and employment as a whole. It covers a wider expanse of economic experience, and attempts to deal with facts which are not known with a high degree of precision. In spite of its limitations Keynes' theory of the capitalist order plays a very important role in

[35] *The General Theory*, p. 378.

his thinking. It carries his analysis much closer to "the actual world" than does his pure theory. This is true because his generalizations of pure theory are of a more "logical" than "experiential" nature. They do not make sufficient room for the facts of experience which do not follow of "logical necessity." Keynes' theory of the capitalist order fills a need not met by his work in the field of pure theory. It provides a framework for the analysis of "the actual phenomena of the economic system . . . which are not logically necessary."[36] Keynes points out that there is no logical reason why the economic system should not be violently unstable. But the historical or empirical facts are that the capitalist system remains for long periods in a "chronic condition of subnormal activity." He explains these empirical facts by turning to the environmental and psychological conditions found in a modern capitalist economy. At this point in his work Keynes goes beyond his pure theory; and, generalizing from experience, he lays the foundation for his theory of capitalism.

After Keynes has developed his general principles of pure theory and his concrete theory of capitalism, he is prepared to apply his theory to practice. He then moves to the field of applied economics where solutions of economic problems are worked out with the aid of whatever generalizations his science provides. In this field of economics Keynes is far removed from the simple facts of pure theory. The material upon which he works is intractable; the data are incompletely known; and logical analysis, proving to be inadequate, has to be supplemented by the economist's practical intuition and wide acquaintance with the facts. Keynes points out that there are no conclusive tests, either formal or experimental, in economics and other social sciences. It is not surprising, in this situation, that agreements between economists on proposals for the solution of economic problems are difficult to secure. Nor is it surprising that it is Keynes' applied economics which is the most controversial portion of his work. His proposals for economic reform have not always been well defined. They range from very specific suggestions for monetary control by the central authority to the rather vague recommendation of a "somewhat comprehensive socialisation of investment" as the only means of securing an approximation to full employment. Writing as he frequently did *sub specie temporis*, Keynes did not always clearly distinguish between the short-term and long-term aspects of his thinking; nor did he always clearly relate his economic proposals to these various aspects of his work. This failure to integrate sufficiently well his analyses and his proposals has resulted in varying interpretations of Keynes' economics. Some economists describe his work as a type of "depression economics," while others assert that its generality makes it independent of any particular phase of the cycle.[37] Whatever one may think of the general import of Keynes' economic thinking, it is quite apparent that he left his work open to widely varying interpretations.

[36] *Ibid.*, pp. 249–250.

[37] J. A. Schumpeter leans toward the first view (see his "John Maynard Keynes, 1883–1946," *American Economic Review*, Sept. 1946, p. 512), while S. E. Harris and others accept the second view (see *The New Economics*, pp. 22–25).

This analysis of Keynes' views on the nature of economics reveals that in the general outlines of his thinking on this particular problem he has not radically departed from the position of the Cambridge school. What he has done has been to give new content to old categories. The world passed through many changes in the years between the first publication of Marshall's *Principles* (1890) and the appearance of Keynes' *General Theory* (1936). Economic doctrines which had been considered adequate in 1890 were found in need of much revision 40 years later. This was a need that Keynes endeavored to meet without departing too far from the general scheme of things created by earlier members of the Cambridge school. He complemented Marshall's theory of the individual firm with his own theory of aggregate output and employment. More than this, Keynes went beyond Marshall's undeveloped theory of the economy as a social organism to work out a theory of the mature capitalist order. He succeeded in developing the superstructure of the science of economics in a manner which would certainly have commanded the admiration, if not the assent, of his illustrious teacher. It is Keynes' position that Alfred Marshall was unable to make much progress in interpreting the economic system as a "social organism" because his pure economics was in itself deficient. He explains that Marshall, in the realm of pure theory, had done little more than graft the marginal principle and the principle of substitution on to the Ricardian long-period equilibrium analysis.[38] Marshall's pure economics, with its emphasis on the allocation of a given supply of resources, proved to be an inadequate introduction to the development of a theory of the competitive capitalism of his time. It could not have been surprising to Keynes that Marshall's second volume on the superstructure of economics never made its appearance, since the first volume on general principles closed so many doors to a study of the concrete economy as a part of the great historical process.[39]

Keynes' contributions to the development of economics when considered from the broadest viewpoint may be summarized as a successful, though incomplete, integration of the various levels of economic analysis running from pure to concrete economics. Marshall and his generation had failed to integrate satisfactorily these various types of economic analysis. Their failure to do so prepared the way for a growing separation between the pure and concrete divisions of their science. In the last quarter of the nineteenth century pure and concrete economics tended to move in opposite directions. The pure economist tended to ignore the problems which were of interest to more empirical investigators; while the applied economist was prone to carry on his studies without much attention being paid to the contributions of pure economics. In spite of the

[38] "The General Theory of Employment," p. 212.

[39] When discussing Marshall's influence on Keynes (in "Keynes, the Economist (1)," in *The New Economics*, p. 66) R. F. Harrod states that "surely one must suppose that the 'principles' were either less constructive or less final than appeared at first sight. Keynes' appreciation tends to minimize their constructive character. I remember . . . his saying to me about the *Principles* . . . 'haven't you yet discovered that that book is void of content?' " Although Keynes' remark was doubtlessly an exaggeration, it is nevertheless quite revealing.

warnings of Marshall, Robbins, and others, concrete economics continued to be little more than an amorphous omnium-gatherum to which was consigned a vast and growing flood of monographic literature. It has been Keynes' contribution to remedy this deficiency in the work of earlier economists of the orthodox school. He directed his pure theory toward the concrete problems of his times. More than this, Keynes created a bridge between pure and applied economics in the form of a theory of the capitalist order. The final product of his efforts is an integration of pure and concrete economics which, although it is far from being complete, nevertheless marks an important step forward in the progress of the science of economics.

The deficiencies which are found in Keynes' views on the nature of economics are those that are usually associated with the Cambridge school. He reproduces the somewhat formalistic, anticulturalistic bias of Sidgwick, Edgeworth, and Marshall. The strongest part of Keynes' work is that which deals with the more formal aspects of economic theory. Although he goes far beyond the earlier members of the Cambridge school in developing a theory of the capitalist order, Keynes' empirical economics is by no means as well developed as his pure economics.[40] It has already been pointed out that Keynes offers no theory of development as a substitute for the technological interpretation provided by the heterodox economists. His theory of capitalism does not come to grips with some of the most important facts of twentieth-century economic life. Furthermore, it remains in a very fragmentary form. Like some other members of the Cambridge school, Keynes had an aversion to broad economic treatises. He much preferred to emulate the pamphleteering of Ricardo, Malthus, and Jevons. "Economics," Keynes wrote, "must leave to Adam Smith alone the glory of the Quarto, must pluck the day, fling pamphlets into the wind, write always *sub specie temporis*, and achieve immortality by accident, if at all."[41] Having a strong preference for the monograph over the general treatise, Keynes could not be expected to get very far with the broad outlines of a theory of the economic order.

There is in Keynes' work a strong humanistic bias which leads him to a decidedly functional view of his science. Marshall had come to economics from prior studies in metaphysics and ethics. His interest in ethical matters continued long after he had taken up economics as his major study. This is evident from the way in which the first chapter of Marshall's *Principles* introduces the subject of poverty. He pointed out in his introductory chapter that it is the hope of reducing poverty "which gives to economic studies their chief and their highest interest." He viewed economics as a science which would become increasingly useful as a weapon in the fight against human misery. This functional view of economic science is reproduced in the work of Keynes, who was much more concerned with "social" than with "private" advantage. But

[40] This is not to imply that Keynes' pure theory was left in a finished state. For a summary of the criticisms of his pure theory see Harris, *The New Economics* chap. IV, pp. 39–45.

[41] *Essays in Biography*, p. 212.

there is a fundamental difference in the functional view of economics held by Marshall and Keynes. Marshall hoped that economics would prove to be a useful tool for the betterment of the laissez-faire economy of his time; but Keynes held no such view, for he was essentially anti-laissez-faire in his general outlook. He regarded economics as an aid in the establishment of a partially-controlled economy in which the government would assume responsibility for the good working of the investment process. It was to defend the view that "a large extension of the traditional functions of government" is required by the economic circumstances of the twentieth century that Keynes found it necessary to change radically the contents of the pure and concrete economics handed down by Sidgwick, Edgeworth, Marshall, and other members of the Cambridge school. In this doctrinal reconstruction Keynes moved far beyond the orthodox position to which he was introduced when he first entered Cambridge. As a consequence, although the shell of his economics may still be described as orthodox, its contents are largely a contribution of novel twentieth-century thinking.

METHODS OF FINANCING THE EUROPEAN RECOVERY PROGRAM -

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I

The Economic Cooperation Act of 1948 put the European Recovery Program (Marshall Plan) on the statute books of the United States.[1] The act declares that it is

the policy of the people of the United States to sustain and strengthen principles of individual liberty, free institutions, and genuine independence in Europe through assistance to those countries which participate in a joint program based upon self-help and mutual cooperation (Sec. 102, a).

The joint recovery program aims at establishing a "healthy economy, independent of extraordinary outside assistance" in European nations. That goal must be achieved by these nations themselves. The United States joins in the program for two limited purposes. This country will aid the European countries in their own individual and combined efforts towards recovery through financial assistance which is made contingent on demonstrated self-help and mutual cooperation in Europe. Secondly, the assistance of the United States is of "extraordinary" character, and will become less important the farther the European nations proceed on the road to genuine economic independence. The act, therefore, is designed to make United States assistance serve the special purposes of European recovery, as distinguished from mere relief, and to render that assistance superfluous in the end.

The Congress provided three means for the accomplishment of these special purposes. It created a separate United States agency, the Economic Cooperation Administration (ECA), and vested its head, the Administrator, with broad powers. It prescribed specific conditions and commitments under which European countries may join the Recovery Program and be assured of continued assistance from the United States. Above all, the Congress appropriated large funds for the primary purpose of financing exports from Western Hemisphere countries to the participating countries in Europe.

II

The Congress recognized that Europe's recovery will require assistance from the United States for several years. The act, therefore, stipulated that funds shall be authorized and appropriated "from time to time through June 30,

[1] The act forms Title I of the "Foreign Assistance Act of 1948," Public Law 472, 80th Congress, approved April 3, 1948. As an enabling act, the measure required additional legislation for appropriations.

1952" (Sec. 114, c). It was thought proper, however, that the 80th Congress appropriate funds for 12 months only, so that the next legislature may review the progress achieved, and act accordingly.[2] Thus, $5,055,000,000 was made available for the first year of ECA operations, commencing April 3, 1948. This total amount is composed of three separate items.

A special act appropriated $4 billion "out of any money in the Treasury not otherwise appropriated" for ECA purposes to be spent under the direction of the Administrator.[3] However, only $1 billion of that sum will be charged against Treasury receipts of the fiscal year 1948/49; $3 billion were set up as a special trust fund from the Treasury surplus of 1947/48 (Sec. 114, f, of the Economic Cooperation Act). Similarly, $55 million were added to the budget of the Administrator from funds appropriated, but not expended, under the "Foreign Aid Act of 1947."[4] The third portion of ECA money, amounting to $1 billion, represents notes which the Administrator is authorized to sell to the Treasury as a public debt transaction (Sec. 111, c, 2).

For brevity's sake, we shall call the $1 billion "debt money," because it is borrowed by the Administrator himself; the $4,055 million we shall call "tax money," because it is appropriated from general Treasury receipts, that is, mostly from tax incomes.

III

The fiscal origins of ECA money determine, to a degree, the terms under which it is expended. Generally speaking, the $4,055 million tax money serves grant purposes, while the $1 billion debt money is advanced under credit terms, that is, as loans. Part of the debt money may also serve as guarantees to private investors, but loans and grants are the chief channels through which ECA money is passed on to participating countries.

1. Loans are given to governments and must be serviced and repaid in dollars provided by the debtor countries themselves. Grants are given with the under-

[2] Letter of Senator A. H. Vandenberg to Secretary of State Marshall, Dec. 31, 1947, and reply of Under-Secretary R. A. Lovett, Jan. 2, 1948, printed in *European Recovery Program*, Hearings before the Committee on Foreign Relations, U. S. Senate, Washington, D. C., Govt. Print. Off., 1948, Vol. I, pp. 56, 57.

[3] Public Law 793, 80th Congress, approved June 28, 1948, Title I. The "Economic Cooperation Act" authorized the appropriation of $4.3 billion for 12 months (Sec. 114, c). When the Appropriations Bill was up, however, the House followed the recommendations of its Subcommittee on Deficiencies and voted only $4 billion for 15 months. The Senate restored most of the House cuts by amending the House Bill. In conference, a compromise was worked out which made $4 billion available for one year, "if the President, after recommendation by the Administrator deems such action necessary. . . ."

[4] Sec. 114, e, of the Economic Cooperation Act. The Foreign Aid Act of 1947 provided immediate help "urgently needed by the peoples of Austria, China, France and Italy, . . . to alleviate hunger and cold." A sum of $522 million was appropriated for the three European countries at the time. Public Laws 389 and 393, 80th Congress, approved Dec. 17 and 23, 1947. This measure is often referred to as "Interim Aid," and was the first step towards the realization of the Marshall Plan, the second one being the Economic Cooperation Act here discussed.

standing that no repayment will be made in dollars.[5] The crux of the matter, of course, rests in the decision whether the economic conditions of a European country and the character of its request for financial assistance warrant the making of a loan in preference to a grant, and vice versa.

The Congress did not leave that decision to the Administrator alone. He is directed to consult on all loan matters with the National Advisory Council on International Monetary and Financial Problems (Sec. 111, c, 1). The Council is charged, under the Bretton Woods Agreements Act, to coordinate the operations of all United States agencies "to the extent that they make or participate in the making of foreign loans."[6] Obviously, the activities of ECA fall within the scope of that provision. To clinch the matter, the act made the Administrator a member of the Council (Sec. 106), which consisted heretofore of the responsible heads of the Treasury, State and Commerce departments, the Federal Reserve System, and the Import-Export Bank.

For the guidance of the Council and the Administrator, the act prescribed that loans can be given "if there is reasonable assurance of repayment considering the capacity of (the recipient) country to make such payments without jeopardizing the accomplishment of (recovery) purposes" (Sec. 111, c, 1). In complying with this provision, two main issues will have to be settled.

First, the Council and the Administrator must be assured that the loan will improve the economic conditions of the debtor country over the long pull by enabling that country to import production goods, such as plant equipment, building materials, etc., from the dollar proceeds of the loan. Secondly, and more importantly, the Council and the Administrator must determine whether the foreign country will earn, because of favorable production and exports trends, more dollars in the future than are needed for financing its then current import needs. It will also be necessary to decide whether additional dollar obligations on loan accounts might force the debtor country into an over-stimulation of its future exports, or sharp decrease in its imports, to the detriment of living standards at home, and trade relations with other countries. If the considerations mentioned weigh against the loan proposal, the needed equipment goods may yet be obtained under grant terms, and at the discretion of the Administrator alone.[7]

If the loan proposal clears all hurdles, the Advisory Council determines the character of the loan, the rate of interest, and the terms of repayment. The loan money itself is paid into the account of the foreign government by the Export-Import Bank from funds allocated to it by the Administrator. The latter, in turn, probably sells ECA notes to the Treasury for the purpose, though

[5] However, the foreign country must place an equivalent amount of its own currency in a special account, as will be discussed later.

[6] 59 Stat.5 12, approved July 31, 1945, Sec. 4, a. The National Advisory Council also directs the policies and operations of the U. S. representatives at the International Bank for Reconstruction and Development, the Monetary Fund, and the Export-Import Bank, and coordinates these policies and operations with those of other U. S. agencies.

[7] Regardless, however, whether these equipment goods are paid for from loan proceeds or shipped as grants, their amounts and types must conform to supply programs.

he may also draw on his tax money funds, because these can be used for either grants or loans, while debt money is reserved for loans and guarantees. Theoretically, the amount of loans outstanding thus may exceed the $1 billion limit, because tax money was advanced on credit terms also.

2. As indicated, not all of the $1 billion debt money is available for loans. The act stipulates that $300 millions may be used for backing United States investments abroad, provided that these investments serve recovery purposes in the foreign country (Sec. 111, b, 3). This assistance is offered as an inducement to United States capitalists to shoulder some of the financial burdens of the Recovery Plan, and takes the form of a guarantee of future dollar payments on investment accounts.

The guarantee comes into play under these conditions. Returns on foreign investments, such as interests and dividends, as well as the repayment of the principal, or the sale of bonds, shares, etc., abroad, result in the accumulation of foreign currency in favor of the United States investor. If the latter wants to convert these funds into United States dollars, he may or may not be able to obtain dollars from the foreign government for his local monies. If the conversion cannot be effected, the United States government is obligated to step in and pay, but only up to the dollar amount of the original investment. The foreign monies then pass into the ownership of the United States government to be spent at its discretion. The guarantee thus covers the convertibility of returns from, or repayments of, foreign investments, but not ordinary business risks or the invested sums as such.[8]

IV

In making money available for European recovery, the Congress did not simply issue a general invitation to the participating countries "to come and get it." On the contrary, each country has to show conclusively, for what concrete purposes, and to what extent, it should receive United States financial assistance. This means, first, that European import requirements from Western Hemisphere countries must be ascertained, and second that available dollar resources must be accounted for. The first task is the more important one, since "the Marshall plan is envisaged in terms of commodities rather than dollars."[9]

1. The Congress, of course, could not legislate for the European countries. But it did incorporate the "Report of the Committee of European Economic Cooperation," signed at Paris on September 22, 1947, by 16 European nations, into the Economic Cooperation Act. That report specified the amounts and types of commodity imports without which, in the judgment of experts, recovery

[8] Sec. 111, b, 3. These guarantees may extend over a maximum of 14 years. Included under the guarantee provisions are foreign investments of U. S. publication firms, limited to a total amount of $10 million by the Appropriations Bill.

[9] "Evaluation of the CEEC Report" by the International Bank for Reconstruction and Development, printed in *European Recovery Program*, Hearings before the Committee on Foreign Relations, U. S. Senate, *op. cit.* Vol. III, p. 1008.

efforts in Europe could not be initiated or maintained. A detailed analysis showed, first, that the 16 nations cannot produce these goods themselves (in sufficient quantities); second, that they cannot obtain these goods from any other source, except Western Hemisphere countries; third, that they cannot earn, or have otherwise available, sufficient amounts of dollars to pay for all of the required imports; and fourth, that these imports, if procured, will increase production and efficiency in vital sectors of the European economy. Most important of all, the signatories to the report pledged themselves solemnly to the attainment of specific production and export goals by 1952, and that pledge is reiterated in the Economic Cooperation Act.[10]

On the basis of that report and subsequent analyses, the Administrator shall, as directed by the act, review and appraise the requirements of the participating countries, formulate concrete and detailed programs of United States assistance, approve of specific projects, and provide for the efficient execution of the programs placed in operation (Sec. 105, a). The spirit in which the Administrator intends to perform these vital duties was expressed by Paul G. Hoffman in these words:

> We take the position that as long as we are furnishing aid to a nation, we have a right to look at their over-all program and not simply restrict ourselves to the question, when we ship a certain tonnage of steel, whether that steel goes into building a certain structure .... In fact, we have a right to look at the total picture of their economy.[11]

Proceeding from this over-all appraisal, the Administrator and representatives of the respective nations determine the total import requirements which each participating country may procure from Western Hemisphere sources. These totals are broken down into definite amounts and types of commodities or closely related groups of commodities. On that basis, the Administrator draws up supply programs which must be complied with in order that export licenses from the United States Commerce Department and import licenses from the respective European governments can be obtained. The movement of goods across national boundaries is thus actually controlled by government agencies, here and abroad, which are already concerned in the supervision of imports and exports.

Without exception, the supply programs of the Administrator stipulate the amounts and types of the commodities to be procured and shipped. In addition, they prescribe that purchases in bulk must be made at prices currently

[10] Sec. 102, a, and especially Sec. 115. The latter section provides that the European governments sign bilateral and multilateral agreements with the U. S. Secretary of State, who acts after consultation with the Administrator. These agreements make U. S. assistance and its continuation contingent on the progressive realization of production, export, and other goals, and prescribe certain procedures for rendering that help effective. These highly important provisions and arrangements cannot be discussed here, since we concentrate on the financial methods employed by the Administrator in the procurement of vital exports to the participating countries.

[11] *Economic Cooperation Administration*, Hearings before the Committee on Appropriations, U. S. Senate, Washington, D. C., Govt. Print. Off., 1948, p. 15.

charged in United States markets (basis f.o.b., United States port), provided that these commodities will be shipped as grants, and were not acquired from government stocks.[12]

2. The commodities procured under supply programs must be paid for in dollars, but these dollars are by no means furnished by ECA alone. Instead, the allocation of ECA funds will again be determined by an over-all appraisal of the foreign exchange situation of the participating countries, just as their import requirements were adjudged by their production picture as a whole.

Before the amount and type of United States assistance is determined, the question is taken up, and settled, as to what dollar funds and earnings the European countries have available by themselves. These resources are pledged for the payment of Western Hemisphere exports, as certified under ECA supply programs. Only the remainder of the total import requirements of the European countries will be financed by ECA. In other words, ECA corrects the dollar deficiencies of the European countries on the condition that their own dollar resources are being used exclusively for recovery purposes, as defined by the supply programs.

By the same token, the financial assistance of the United States is intended to produce, in the words of the Administrator,

> an equivalent result in recovery. Now, we are measuring recovery, of course, in terms, as best as we can, of contributions to increased productivity in the plants and on the farms.
>
> I may have said before, and I would like to repeat, we consider ourselves investment bankers for recovery, and we are not out to spend money, we are out to invest money.[13]

The term investment does not indicate that ECA money is put in profit-yielding enterprises. "Investment for recovery" means the financing of commodity exports which provide the bases and incentives for increased production in Europe. Physical goods are thus the vehicles of investment, and the financial assistance of the United States is determined by the urgency for, and the future use of, these goods. "In appropriating funds for ERP," it was said, "we are providing Europe with goods rather than dollars, since the funds will be available only for expenditure on a specified program of goods approved by the Administrator."[14]

V

The act enjoins the Administrator to "facilitate and maximize the use of private channels of trade" in the actual purchase, handling, and delivery of commodities under approved supply programs. In order to induce United States

[12] This provision was inserted in the Appropriations Bill (Sec. 202) in order to prevent "off-shore" purchases, especially of Argentinian wheat, at excessive prices. However, the language used is so broad that the price provision applies to purchases in the United States as well.

[13] *Economic Cooperation Administration*, hearings before the Appropriations Committee, U. S. Senate, *op. cit.* p. 572.

[14] Statement submitted by the Secretary of the Treasury, *Foreign Aid Appropriation Bill for 1949*, Hearings before the Subcommittee of the Committee on Appropriations, House of Repres., Washington, D. C., Govt. Print. Off., 1948. Vol. I. p. 943.

firms and merchants to undertake the job, the Administrator is authorized to issue "letters of commitment" which guarantee dollar payment upon proof that delivery in the foreign country was made in accord with supply program specifications (Sec. 111, b, 1, i). Being guarantees, the letters need not be honoured if the procurer-exporter receives a dollar draft from the foreign country through ordinary bank channels, as will often be the case. The main purpose of the letters consists in providing private firms and merchants with a sort of collateral for bank credit needed in their export business. With this transfer guarantee of sales proceeds in the background, ECA-approved exports are carried through exactly like any other business transaction in the foreign field, including their settlement in dollars by ordinary bank draft.

To be sure, the private procurement deals will eventually be financed by ECA dollars, but only after the goods have been delivered and even been paid for. The procedures followed thus do not involve direct ECA payments to United States procurers (except when letters of commitments must be honoured); instead, ECA will settle with the governments of the recipient countries by dollar transfers. The reason for this seemingly roundabout way[15] lies in the fact that the European countries require their citizens and firms to turn over all, or the greater part of the dollar receipts from exports, investments, private loans, etc., to the respective Central Banks against payments in local currency. These dollar resources, being insufficient to pay for the total import requirements of the foreign countries, are supplemented by ECA funds through loans or grants or both. Depending on which of the two means are being used, ECA assumes a different role as paymaster for foreign imports.

The proceeds from ECA loans simply add dollars to the "own" dollar resources of the foreign country, and will be used, like these, to pay for Western Hemisphere exports specified as to amount and types. No price stipulation, however, has to be met, because loans constitute definite and contractual obligations of the foreign governments, and the loan money is turned over to them without any further strings attached.

When goods are shipped as grants, on the other side, ECA dollars are transferred to the account of the foreign government only after the goods are delivered and even paid for in dollars. For the latter purpose, the foreign government allocated dollars in a provisional way, so to speak, in order to let the private firms complete the import deal in their customary ways. But as soon as the deals are settled, the foreign government turns over to the Administrator documentary proof that the specifications of his supply programs have been met, including those pertaining to price, if bulk shipments were made. If

[15] After prolonged discussions, the European countries receiving ECA help agreed to handle the division and allocation of ECA grant funds for the second half of the ECA year themselves, and through their joint Council of European Economic Cooperation (CEEC). The procedures of export financing, as outlined in the text, will not be materially affected by this arrangement, since CEEC will simply take over the paymaster functions of the Administrator within the framework of approved procurement deals. The importance of the new arrangement lies primarily in the fact that the recipient countries had to agree among themselves on the "slicing of the cake," thereby setting a desirable example of their cooperation.

satisfied, the Administrator will credit the foreign government with the dollar amount expended in settling the claims of the United States procurer-exporter, thus paying, in effect, for the delivered goods.

When ECA funds are transferred under grant provisions, the foreign government assumes an important obligation which has no counterpart when loans are made. Under the bilateral agreements between the United States and the foreign governments, the latter must deposit into special accounts sums of local currency equivalent to the dollar amounts received as grants. These sums cannot be used except under certain rules agreed to between the United States and the foreign government. The Economic Cooperation Act prescribes that they shall be held or used primarily "for purposes of internal and financial stabilization, for the stimulation of productive activity and the exploration for and development of new sources of wealth" in the foreign country.[16] Thus, a certain amount of foreign currency, equivalent to the dollar grant, is withdrawn from its ordinary function as an exchange medium and earmarked for special and public purposes which serve the end of recovery.

One final and important point needs mentioning. The procurement of ECA-approved supplies is by no means reserved for United States firms and merchants, but can be engaged in equally well by purchasing agencies, or other persons and organizations of the foreign country. However, no "letters of commitment" are issued in such cases, and no separate dollar transfers for completed grant deals are made. Instead, the Administrator establishes special accounts from which the participating country can withdraw dollars upon the presentation of contracts, invoices, or other documents showing compliance with the terms of the supply programs (Sec. 111, b, 1, ii).

VI

On his side, the Administrator need not rely on United States firms, or foreign agencies either, for the execution of his supply programs. The act gives him power to procure from any source, including government stocks, any commodity which he determines to be required for shipments abroad (Sec. 111, a, 1 and 2). The emphasis of this provision is on government stocks, and its most important application concerns the so-called agricultural "surplus" commodities held in stock by the government-controlled Commodity Credit Corporation. These stocks were accumulated in the course of price support actions undertaken by the Secretary of Agriculture for such "basic" products as cotton, wheat, corn, tobacco, rice, and peanuts. The Administrator can draw upon these stocks, and enlist the services and facilities of United States government agencies for his purposes under the following conditions.[17]

Surplus commodities bought from government stocks must be made avail-

[16] Economic Cooperation act, Sec. 115, b, 6. Not all of the "counterpart" funds will thus be used, however. The act provides that 5% of the sums collected in each country shall be used for ECA administrative expenses in that country, and for U. S. purchases of strategic materials if they are available in that country.

[17] Economic Cooperation Act, Sec. 111, b, 2. The Administrator is also enjoined to act in cooperation with the United Nations or other international organizations in channeling such exports to Europe.

able to the participating countries as grants, so that the Commodity Credit Corporation is being paid from ECA tax money funds. However, the dollar amounts paid to the CCC may be higher than the dollar amount by which ECA funds are actually depleted, and also higher than those for which the recipient countries place local currency into the special fund.

Commodity Credit Corporation stocks were accumulated under cost and price conditions which have no direct bearing on the price level prevailing at the time when ECA wants to buy from CCC. Yet, this agency is required to sell surplus commodities at unit prices which cover cost, or correspond to current market quotations in the domestic market. ECA has to meet these price requirements. In doing so, ECA would indirectly contribute towards the financing of the agricultural price support program; obviously, ECA funds were not appropriated for such a purpose. The solution for this dilemma was found in tying up payments of ECA with former surplus disposal legislation.

Under the Economic Cooperation Act, the Secretary of Agriculture is authorized to reimburse ECA for its payments to the CCC "in an amount not to exceed 50 percentum of the sales price . . . (basis f.o.b., United States port), as determined by the Secretary of Agriculture, of such surplus agricultural commodities" (Sec. 112, e and f).[18] The Secretary of Agriculture, in turn, is directed to pay ECA out of funds available to him under Section 32 of Public Law 320 (74th Congress, approved August 24, 1935). These funds equal 30 per cent of the gross customs receipts of a fiscal year, and must be used "to encourage the exportation of agricultural commodities . . . by the payment of benefits in connection with the exportation thereof." The reimbursements on ECA payments to the CCC are construed as such benefits, which may amount to as much as half of the current market price, and will ultimately accrue to the participating countries in Europe.

It should be noted that the Economic Cooperation Act merely authorized, but did not obligate, the Administrator to buy agricultural products of "basic" character from CCC stocks. However, the Appropriations Bill added a special provision by which exports of wool, shipped as grants, must be made from CCC stocks, until such stocks are exhausted (Public Law 793, Sec. 202).

VII

Hypothetical examples may serve to clarify further the various methods prescribed by the Economic Cooperation Act with respect to the financing of United States exports to participating countries.

1. Suppose that as a result of conferences between the Administrator and the French government it is determined that France needs 1,000 tractors for its farms.[19] It is found that 500 tractors can be produced in France, 200 tractors

[18] The provision that prevailing market prices must be paid for goods purchased in bulk and shipped as grants does not apply to commodities acquired from CCC stocks, as expressly stated in Sec. 202 of the Appropriations Bill.

[19] This example is based on information given in *Foreign Aid Appropriations Bill for 1949*, Hearings before the Subcommittee of the Committee on Appropriations, House of Representatives, *op. cit.*, pp. 317–319. See especially the remarks of Congressman Frank B. Keefe and Paul Nitze, of the State Department.

can be purchased with dollars available from French exports, and 300 tractors shall be furnished by ECA as grants. A supply program for all 500 tractors is drawn up, specifying types, but not prices, because tractors are not shipped in bulk.[20] In his books, the Administrator sets aside, from tax money funds, an amount covering the costs of the 300 "grant" tractors, while the French government earmarks the purchase price of 200 tractors from its own dollar funds for future allocation.

Suppose further that the International Harvester Company is advised of the supply programs, and decides to furnish tractors within the allotment of the 300 "grant" tractors, as well as within the allotment of the 200 "free" tractors. The company wants to come in under both programs, because it makes little difference to them whether the tractors are shipped as grants or otherwise.

In each case, "letters of commitment" can be obtained. Again, export licenses from the U. S. Department of Commerce, as well as import licenses from France must be secured, and compliance with the terms of the supply program documented, for all tractors shipped. Finally, the tractors arrive in France, and the representative of the firm delivers them to the French. The latter, of course, pay in French money; the representative of International Harvester turns the money over to a French bank. On the strength of the import license, the bank will obtain dollars from the French Central Bank, and credit the United States bank of International Harvester with the sales price of the tractors. When "letters of commitment" were used for establishing a credit line, that line is closed out, and the letters return to ECA as evidence of the completed deal.

It is only after International Harvester is out of the picture that the difference between the 200-tractor shipment, and the 300-tractor shipment becomes apparent. The Harvester deal under the 200 tractor allotment is completely settled, because the French bank was allocated dollars from the "own" funds of the French Central Bank. The settlement of the "grant" shipment is reopened, so to speak, on the government level, and concerns the Administrator and the French government alone. The export of the 300 tractors is supposed to be financed by ECA, and not by France. However, the French Central Bank did allocate dollars, in order that all tractors might be procured alike. These dollar payments were only provisional, though, because ECA will pay the French government the exact amount expended by the Central Bank for the settlement of International Harvester's claims. For the dollars received, the French government will put an equivalent amount in its own currency in the special funds.

2. Suppose that as a result of conferences between the Administrator and the French government it is decided that the production capacity of the French agricultural machinery industry should be increased. It is also found that France does not have available all the materials needed for that expansion,

[20] The Appropriations Bill provides, however, that the total shipment of farm machinery, including tractors, shall not exceed $75 million during the first year of ECA operations (Sec. 203). The supply program of the Administrator would have to take that limitation into account, of course.

and that plant equipment, building materials, steel, etc., must be secured in the United States. Under these conditions, a loan, rather than a grant, seems to be indicated. A loan proposal is submitted to the Administrator, who will take up with the National Advisory Council the crucial issue of France's ability to service and repay the loan.

The Council's deliberations proceed, first of all, from the fact that the loan, if given, will establish a credit line with the Import-Export Bank in favor of the French government, and that these dollars will be used for the purchase of equipment goods needed for the expansion of the French agricultural machinery industry. The French firms which undertake that expansion will buy these goods with France's funds presumably raised through bank credit, issue of bonds, or shares, etc.; the shipment and payment of the equipment goods follow the procedures described above for the tractors procured under the 200-tractor allotment, and paid for out of France's "own" dollar funds.

Now the ability of the French government to repay its loan in dollars has little, if anything, to do with the question whether the French firms producing more, and presumably cheaper, agricultural machinery will be able to pay interest, amortization, or dividends to their banks, share-, or bondholders. The real issue before the National Advisory Council concerns the over-all foreign exchange situation of France at the time when the French government will have to start servicing and repaying its loan.

This total approach overrides even the merits which a particular loan and its use may have in alleviating the future exchange situation of France. The Council, for example, may well be convinced that a larger output of agricultural machinery will reduce French tractor imports, and thus diminish future dollar requests on that account. However, the Council may yet turn down the proposed loan, because it fears that large loan commitments will overstimulate the French export trade to the detriment of living standards in France and trade relations with other countries. France may be offered the needed equipment goods under grant terms, or even be advised to breed more draft animals, and thus avoid a further encumbrance of her future dollar exchange situation.

3. Suppose that the expansion of the French agricultural machinery industry, just mentioned, will be financed through a bond issue in France. Since the project is approved by the Administrator, he will try to interest American investors in the venture by offering guarantees for the full amount of bond purchases. Assume that $50,000 worth of bonds are bought under these terms at the prevailing rate of exchange. The dollars put up by the United States investor are turned over to the French Central Bank, and the equivalent franc amount is credited to the bond issuing firm. The Central Bank thereby augments its own dollar holdings for allocation purposes under approved supply programs.

The bonds owned by an American investor draw interest in French money, of course; the bondholder thus acquires francs accounts with a French bank. In due course, the bonds mature, or the American bond owner sells his bonds to a Frenchman; the proceeds are paid again into his franc account. The American

investor, of course, is quite free to use his francs in any way he pleases, so long as the money is spent in France. However, if he wants to convert his franc holdings into dollars, he must apply to the French Central Bank for the dollars, assuming that France has not returned to free exchange conditions. If the French Central Bank is not able to give the investor dollars in return for his franc accounts, the ECA guarantee will come into play. Upon proper documentation, the investor will be paid dollars by the United States government, but only up to the original amount of his investment. The investor's franc funds pass into the ownership of the United States government to be expended at its own discretion; they will not become part of the local currency funds accumulated by the foreign government under grant terms.

SOURCES OF FUNDS FOR CORPORATE PLANT EXPANSION, 1946-1948

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I

A study was recently undertaken at this university, for the purpose of obtaining firsthand information on the sources of funds for postwar expansion of manufacturing plants.[1] Findings, and interpretation of the findings, of this study appear in the pages that follow.

All but the classificatory information was obtained by questionnaire. Late in 1947 questionnaires were sent to all American manufacturing corporations listed in the Securities and Exchange Commission's release No 111. It was felt that corporations in this selection were most indicative of the pacesetters and policy-determiners of the manufacturing industry. These 803 corporations were divided into 19 groups including the following: automobiles; building materials and equipment; chemicals and allied products; communication equipment and related products; drugs, medicines, cosmetics, and soap; food and kindred products; household machines, appliances, and utensils; leather and leather products; lumber and wood products; machinery parts and equipment; metals—iron and steel; metals—nonferrous; oil refining; paper and allied products; professional and scientific instruments; rubber products; textile mill products and apparel; tobacco products; and transportation equipment. Substance of the questionnaires sent to comptrollers of the corporations follows.

Questionnaire

1. Have you expanded your plant facilities during 1946 or 1947? ________
2. Do you plan to expand your plant facilities during 1948? ________
3. If you have expanded, or plan to expand during 1948, or both, please indicate the source and dollar value of the expansion below:

	Dollar Value
Stock	
Common	________
Preferred	________
Bonds	
Equipment	________
Debenture	________
Mortgage	________
Notes	
With maturities of one year or less	________
With maturities of more than one year	________
Income	________

Seventeen of the industry groups replied to the questionnaire. Two groups—paper and allied products and professional and scientific instruments manu-

[1] The writer is deeply indebted to M. J. Williams, now at Duke University, for his assistance in collecting and compiling the original data.

facturers—which were sent 34 questionnaires submitted no replies. But 4 of the 17 industries submitted less than 15 per cent replies. These four groups—food and kindred products, lumber and wood products, tobacco products and transportation equipment manufacturers—were eliminated from further examination along with the two submitting no replies, thus leaving 13 groups, and a total of 584 companies. Fifteen per cent was selected arbitrarily to mark the dividing line between those that would and those that would not be retained for further analysis. Table I below offers a list of the 13 groups retained for further analysis with an illustration of the number of questionnaires sent, and the number and percentage of replies returned by each.

TABLE I

Number and Percentage of Companies Replying to Questionnaire

INDUSTRY	NUMBER OF COMPANIES RECEIVING LETTERS	NUMBER OF COMPANIES REPLYING	PERCENTAGE OF COMPANIES REPLYING TO NUMBER WRITTEN
Automobiles and equipment	50	33	66.00
Building materials and equipment	50	23	46.00
Chemicals and allied products	55	17	30.90
Communication equipment and allied products	20	8	40.00
Drugs, medicines, cosmetics, and soap	22	7	31.81
Household machines, appliances, and utensils	26	5	19.23
Leather and leather products	15	8	53.33
Machinery parts and equipment	142	61	42.95
Metals—iron and steel	71	26	36.62
Metals—nonferrous	26	10	38.46
Oil refining	31	15	48.39
Rubber products	17	3	17.65
Textile mill products and apparel	59	18	30.51
Totals	584	234	40.07

It should be noted that the 13 groups herein illustrated consist only of those which submitted replies in excess of 15 per cent. Forty per cent of these companies replied to the questionnaire. The largest number of replies came from the manufacturers of machinery parts and equipment, but the largest percentage came from the manufacturers of automobiles and equipment, and 11 of the 13 industry groups returned more than 30 per cent of their questionnaires.

Table II above is a comparison of the number of corporations expanding with the number replying to the questionnaires. Eighty-three per cent, 195 of the 234 replying concerns, indicated that they had expanded in the two previous years or expected to expand by the end of 1948. The largest number of expanding firms were present in the machinery parts and equipment industry—the same group of corporations that received and returned the largest number of inquiries. The smallest number of expanding firms were present in the rubber products industry, which received 17 questionnaires and submitted 3 replies.

But it is interesting to note that the highest *percentage* of expanding firms is not found in the industry submitting the largest *number* of replies, nor is the lowest percentage of expanding firms found in the industry submitting the fewest replies. In six of the groups all of the replying corporations indicated expansion over the 3-year period, and in only two industries—communication equipment and allied products, and metals—nonferrous—was expansion participated in by as few as one-half of the firms. Together the firms will have expanded by $3,688,574,000 by the end of 1948.

TABLE II

Number and Percentage of Expanding Corporations

INDUSTRY	NUMBER OF COMPANIES REPLYING	NUMBER OF COMPANIES EXPANDING	PERCENTAGE OF COMPANIES EXPANDING TO NUMBER REPLYING
Automobiles and equipment	33	33	100.00
Building materials and equipment	23	23	100.00
Chemicals and allied products	17	17	100.00
Communication equipment and allied products	8	4	50.00
Drugs, medicines, cosmetics, and soap	7	7	100.00
Household machines, appliances, and utensils	5	5	100.00
Leather and leather products	8	6	75.00
Machinery parts and equipment	61	46	75.41
Metals—iron and steel	26	16	61.54
Metals—nonferrous	10	5	50.00
Oil refining	15	14	93.33
Rubber products	3	3	100.00
Textile mill products and apparel	18	16	88.89
Totals	234	195	83.33

II

It is evident, in view of Table III, that common stock is not a major source of funds for plant expansion, supplying only 4.57 per cent of the combined expansion funds. Three industry groups indicated using common stock for more than 10 per cent of their financing, but only one—communication and equipment—is relying upon this medium as a major source of funds for expansion. Nor does preferred stock offer a contrasting picture. While almost twice as many expansion dollars are arising from the sale of preferred as from the sale of common stock, only four groups are resorting to this instrument for more than 10 per cent of their funds. It will be noted, however, that three of the four preferred stock figures exceed 20 per cent. Both classes of capital stock combined will supply a little over 13 per cent of the total dollars and it is evident, therefore, that the major source of funds lies outside the equity market.

None of the corporations under consideration is using equipment bonds, and relatively few are resorting to debenture or mortgage bonds. Debenture

TABLE III

Stock as a Source of Funds for Plant Expansion

(In thousands)

INDUSTRY	STOCK			
	Common		Preferred	
	Amount	Percentage of Industry Total	Amount	Percentage of Industry Total
Automobiles and equipment	534	0.29	4200	2.29
Building materials and equipment	16544	15.99	10685	10.33
Chemicals and allied products	2625	0.43	191000	31.34
Communication equipment and allied products	10000	61.16	0	0.00
Drugs, medicines, cosmetics, and soap	275	1.12	0	0.00
Household machines, appliances, and utensils	300	2.83	2565	24.21
Leather and leather products	0	0.00	0	0.00
Machinery parts and equipment	1750	0.55	95500	29.98
Metals—iron and steel	4090	1.23	0	0.00
Metals—nonferrous	0	0.00	0	0.00
Oil refining	112500	5.97	6000	0.52
Rubber products	0	0.00	0	0.00
Textile mill products and apparel	20025	14.48	5000	2.94
Totals	168,643	4.57	314,950	8.54

TABLE IV

Bonds as a Source of Funds for Plant Expansion

(In thousands)

INDUSTRY	EQUIPMENT BONDS		DEBENTURE BONDS		MORTGAGE BONDS	
	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent
Automobiles and equipment	0	0.00	1550	.86	10000	5.46
Building material and equipment	0	0.00	4000	3.87	0	0.00
Chemicals and allied products	0	0.00	30000	4.92	0	0.00
Communication equipment and allied products	0	0.00	0	0.00	0	0.00
Drugs, medicines, cosmetics, soap	0	0.00	0	0.00	0	0.00
Household machines, appliances, and utensils	0	0.00	0	0.00	350	3.30
Leather and leather products	0	0.00	0	0.00	0	0.00
Machinery parts and equipment	0	0.00	74500	23.33	897	0.28
Metals—iron and steel	0	0.00	30000	9.05	77900	23.49
Metals—nonferrous	0	0.00	6000	22.44	0	0.00
Oil refining	0	0.00	69067	3.67	0	0.00
Rubber products	0	0.00	885	16.93	0	0.00
Textile mill products and apparel	0	0.00	0	0.00	200	0.12
Totals	0	0.00	216,002	5.86	89,347	2.42

bonds are supplying 5.86 per cent and mortgage bonds 2.42 per cent of the funds. Both classes of bonds together will provide slightly more than 8 per cent of the dollars. Three industry groups stated they are using debenture bonds to finance more than 10 per cent of their plant expansion and only one industry—iron and steel—reported the use of mortgage bonds to finance more than 10 per cent of its expansion. Eight of the 13 groups reported no use of mortgage bonds, and two others reported less than five-tenths of 1 per cent.

TABLE V

Notes as a Source of Funds for Plant Expansion

(In thousands)

INDUSTRY	NOTES WITH MATURITIES			
	Of less than one year		Of more than one year	
	Amount	Per Cent	Amount	Per Cent
Automobiles and equipment	4000	2.18	35550	19.41
Building materials and equipment	18750	18.13	19630	18.97
Chemicals and allied products	0	0.00	227780	37.38
Communication equipment and allied products	1250	7.64	800	4.89
Drugs, medicines, cosmetics, and soap	0	0.00	24200	98.88
Household machines, appliances and utensils	1000	9.44	500	4.72
Leather and leather products	0	0.00	600	7.03
Machinery parts and equipment	90	.03	115580	36.29
Metals—iron and steel	0	0.00	6740	2.03
Metals—nonferrous	0	0.00	10000	37.39
Oil refining	0	0.00	15000	0.79
Rubber products	0	0.00	0	0.00
Textile mill products and apparel	0	0.00	40000	23.52
Totals	25,090	.68	496,380	13.46

This is more consistent with traditional industrial financing than are the low capital stock figures of Table III, but they also fail to explain expansion in this postwar period.

Notes with maturities of one year or less are short-term notes and are used mainly to supply working capital. As evidenced in Table V, these corporations use few short-term notes for plant expansion. Short-term notes account for less than 1 per cent of the total expansion of the 13 groups. The only exception to this is the building materials industry which reported using short-term instruments to supply approximately 20 per cent of its plant expansion. Eight of the groups reported no use of short-term notes and one other reported less than one-tenth of 1 per cent. These figures are indicative of long-accepted practices among manufacturing concerns.

Notes with maturities in excess of one year, on the other hand, are used more

extensively in this plant expansion program as is indicated by the fact that they will have supplied 13.46 per cent of the total expansion funds by the end of the period—the greatest single external source of funds. Maturities of these notes were found to have fallen mainly between 3 and 20 years. Drugs, medicines, cosmetics, and soap manufacturers are relying almost entirely upon notes with maturities in excess of one year, while seven of the industries state they will use them to finance more than 18 per cent of their plant expansion. Only one industry—rubber products—reported no use of this type of financing. The relatively extensive use of the instrument by manufacturing corporations, for plant expansion, is consistent with what appears to be a definite trend. Besides plant expansion, these instruments are used to supply funds for working capital needs including "interim" financing, for funding short-term obligations, and for refunding long-term debts including bonds.

Notes with maturities in excess of one year arise out of direct loans by banks and other financial institutions, but as this is a relatively recent and rapidly developing phase of corporation finance, the writer will comment further on its characteristics. Loans with maturities in excess of one year are referred to both as "long-term" loans and as just "term" loans with the latter gaining rapid acceptance, especially in the field of financial research. Thus, in a special publication of the Board of Governors of the Federal Reserve System, " 'Term loans' are usually defined as 'business' loans having a maturity of over one year. . . ."[2] Professors Jacoby and Saulnier define a term loan similarly as "a loan to a business enterprise that is repayable, according to agreement between borrower and lender, after the lapse of more than one year."[3] Term loans may be further classified as medium-term and long-term; likewise, notes with maturities in excess of one year may be classed as "medium-term" notes or "long-term" notes, depending upon their maturities. Opinion differs, however, as to where the medium-term ends and the long-term begins. To avoid terminological controversy, therefore, Table V was made to include all notes with maturities in excess of one year.

While maturities of term notes and bonds may overlap, the two instruments are readily distinguishable. For example, where term notes are relatively simple instruments closely resembling short-term promissory notes, bonds are usually rather lengthy formal and sometimes even colorful instruments. Where term notes often provide for the installment method of repayment, bonds are repayable in lump sum. This is not in contradiction to the sinking-fund or serial redemption methods of retiring bonded indebtedness. Where term loan financing usually includes one note, bond financing usually includes a multitude of "notes." Where the "term loan agreement" accompanying the note is "custom-made" and designed to meet the special needs of the individual borrower, the bond "indenture" is generally a long and much less flexible treatise. And, finally, while term notes are acquired directly by commercial banks,

[2] *Commercial and Industrial Loans at Member Banks April 16–May 15, 1942*, Board of Governors of the Federal Reserve System, p. 15.

[3] Neil H. Jacoby and Raymond J. Saulnier, *Term Lending to Business*, p. 1.

insurance companies, and special lending agencies, and usually held to maturity, bonds are customarily "floated" by investment banks and turned over many times before maturity by masses of individual and institutional investors.

As evidenced in Table VI above, income is the key source of funds for plant expansion, supplying 64.47 per cent of the total funds. All but two industries will have used this medium by the end of the period, for more than 20 per cent of their expansion. Drugs, medicines, cosmetics, and soap manufacturers, however, resorted almost entirely to long-term notes, leaving no room for income-financing. Deficiency in income for plant expansion in this industry may have resulted directly from curtailed operations during the war. Seven of the

TABLE VI

Income as a Source of Funds for Plant Expansion

(In thousands)

INDUSTRY	AMOUNT	PERCENTAGE
Automobile and equipment	127315	69.51
Building materials and equipment	33812	32.71
Chemicals and allied products	157971	25.92
Communication equipment and allied products	4300	26.30
Drugs, medicines, cosmetics, and soap	0	0.00
Household machines, appliances, and utensils	5880	55.50
Leather and leather products	7930	92.97
Machinery parts and equipment	30190	9.48
Metals—iron and steel	212897	64.20
Metals—nonferrous	10742	40.17
Oil refining	1682522	89.26
Rubber products	4343	83.07
Textile mill products and apparel	100230	58.94
Totals	2,378,132	64.47

industries are allowing income to supply more than 50 per cent of their expansion funds, and three are resorting to this source for more than 80 per cent of their expansion. Since the boom of the twenties income and long-term notes have come to gradually supplant equity and debt securities as mediums of expansion. Income for plant expansion is accumulated mainly by adhering to conservative surplus and reserve policies.

Tables were finally set up in this study to establish frequency ratings for each source of funds. The importance of each source was found to be relatively the same on this, as on the dollar-value basis. Thus 195 expanding corporations are resorting in all to 356 separate financial transactions to complete their total \$3,688,574,000 plant expansion program, resulting in an average of two plus transactions for each corporation. Common stock is being used 20 (5.62 per cent) times and preferred stock 33 (9.27 per cent) times. Debenture bonds are being used 21 (5.89 per cent) times and mortgage bonds 9 (2.53 per cent) times.

Notes with maturities of one year or less 16 (4.49 per cent) times and notes with maturities in excess of one year 61 (17.14 per cent) times. Income, finally, is being used in 196 (55.06 per cent) separate instances. Thus, it is apparent that basically the same pattern prevails in the frequency-of-use as in the dollar-value basis of comparison.

III

The sale of stocks, bonds, and notes generally increases current assets preliminary to plant expansion—so does current income withheld from the factors of production. Is plant expansion then simply a transfer of current into fixed assets—a change in the quality of assets from cash and cash items to productive buildings, machines, and equipment? This concept of plant expansion, would necessarily lead to the conclusion that the source of plant expansion is current assets and, therefore, that plant expansion renders only qualitative changes in total assets. For purposes of this discussion, however, it is presumed that plant expansion also increases total assets, thus that it is quantitative as well as qualitative. In practice there may be a delay in action between the sale of capital instruments or the receipt of income and the actual expansion of plant, during which time current assets are inclined to increase. The increase in current assets, and their transfer to fixed assets, however, are financial "mechanics"—means to an end in which the end is plant expansion. Thus, plant and total assets are presumed to increase externally by the sale of capital stock, bonds, and notes, and internally by withholding income from the factors of production—not by the "mechanics" of transferring current assets. For convenience of analysis all sources of funds are classed as external or internal. External sources are those other than income, and are further distinguishable by the presence of formal financial instruments. Thus, external sources are evidenced in stocks, bonds, and notes while internal sources are evidenced in reserves and surplus "set up" out of income.

Internal expansion, evidencing itself in reserves and surplus, tends to cause an increase in net worth which has the effect of increasing book values of outstanding capital shares. This in turn tends to strengthen market values and may even stimulate new equity financing. It is often found, nevertheless, that the actual day-to-day market situation does not conform to this pattern. For example, where corporations curtail dividends to "save" income for plant expansion the immediate effect may be a drop in market values and decreased new financing, even in the face of rising book values. Market values may also refuse to rise for some shares even though dividends and book values are maintained or rising; this may be attributed to a lack of faith in a corporation's future, which probably will, however, be overcome if internal expansion continues. Finally, some soundly established "name" corporations with strong public support are experiencing weak markets and consequently find difficulty in moving new shares today; management attributes this mainly to an inequitable tax system—especially double taxation and severe personal rates in the higher brackets. But disregarding the day-to-day vicissitudes of the market, let us return to examining the long-run implications of internal expansion.

Should profits result as anticipated from the internal expansion and added production, earned surplus as well as cash dividends[4] will probably increase still further. The effect of this condition is to strengthen the market for both common and preferred shares, especially for the former. Preferred shares, being restricted in dividends and assets on dissolution, and being subjected generally to redemption at the option of the corporation, are likely to benefit less than common shares. Besides stockholders, however, the corporation itself stands to benefit from the stronger market as it conditions the corporation for the issue of new capital shares for redemption of outstanding securities, or for further expansion of assets.

The effect of internal expansion upon outstanding bonds is similar to its effect upon capital stock. Added asset support, greater production and probably greater profit secure the payment of interest and principal. Holders of mortgage bonds with after-acquired property clauses are directly benefited, all unsecured holders of debentures are indirectly benefited, and the combined benefits tend soon to be registered in stronger bond quotations. Such advantages, however, are likely to be short-lived because bond-premiums mean lower yields to the investor, and lower yields to the investor invite corporations to refund at reduced interest rates. This works to the advantage of the corporation in reducing its fixed charges, which ought to be looked upon with favor by management, labor, and equity—capital. Besides taking advantage of low interest rates to refund outstanding indebtedness, corporations may also take this opportunity to increase its assets. But management is not inclined to raise capital by the issue of bonds so long as income is available, or so long as its equity securities find a willing market.

Where income is adequate, manufacturing corporations are inclined to use new bond issues mainly for funding and refunding activities. Where income is inadequate for new plant expansion needs they tend to favor equity financing, but where the market for such instruments is weak corporations resort to bonds and term notes. With the drop in interest rates during the past 15 years, however, it is known that some concerns have voluntarily selected bonds and notes over equity financing. While low interest rates on corporate bonds are often attributed to the "cheap money" program of the Treasury, it appears to the writer that the major factors in reducing such rates have been increasing corporate incomes combined with more "self-financing," and these combined with an increasing quantity of investable funds in the hands of individuals and financial institutions.

Short-cutting the sale of bonds by direct placement of term notes with insurance companies, commercial banks, and other financial institutions of lesser significance has reduced the interest on long-term debt financing to an all-time low. The same factors affect these instruments, however, as affect bonds. Noteholders secured by after-acquired property clauses are directly benefited

[4] Where earned surplus represents mainly "ploughed-back" earnings, corporations are often inclined to declare stock instead of cash dividends, thus capitalizing their past earnings and making their expansion permanent.

and all unsecured holders are indirectly benefited by internal expansion. Added plant and rising profits are also reflected favorably in over-the-counter markets where term notes may be exchanged. But noteholders may also find themselves taking cash in place of notes where their notes are redeemable at the option of the corporation, and the same conditions which strengthen the market and cause redemptions likewise press down interest rates on new issues and reduce, as in the ordinary refunding of bonds, fixed charges of the corporation. Besides taking advantage of low interest rates to call outstanding notes, corporations are inclined to expand their capital by issuing new notes at the lower rates.

Despite the fact that internal plant expansion has been slow to reach its present proportions, it has long been recognized by corporations as the most conservative and least risky of the various methods here discussed. It is necessarily a gradual rather than a rapid means of expansion, but while it builds slowly it builds firmly. It reduces the chances of insolvency and improves the chances of long-run profits for the corporation, which in turn has important repercussions upon stockholders, bondholders, noteholders, and even corporate employees.

THE STATUS OF STAGNATION THEORY—PART II*

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The preceding analysis concluded that the doctrine of stagnation depends almost entirely on one or both of two assumptions. The first is that consumption and investment are not reciprocally motivated, and the second is that at the present time there is expectable inadequate dynamics in the economy in terms of the volume of saving that is prospective for the near future.[1] It was also emphasized that stagnation could be derived from the first assumption without the second, but that it could not be derived from the second without the first. In the main the debate concerning stagnation has considered only the second assumption, and the discussion of it has followed closely the objective, rationalistic approach implicit in classical economics.[2]

This summary statement suggests three important corollaries. First, "dated" stagnation theory—that part of the controversy in which by far the greatest interest has been evinced—contains at present as its greatest strength the fact that the psychological law of Lord Keynes still stands virtually intact, although partially by default. Second, it contains as its most important weakness the difficulty of going behind conjectures as to the future of innovation in capitalism.[3] Third, and in consequence, the objective rationalistic approach to stagnation can accomplish only agreement on basic principles. It appears that to a considerable extent this has been achieved. Consequently, the primary ground for future discussion must lie behind the primarily objective treatment that has characterized the debate to this point, and take the form of an attack on the problem in its more subjective, nonrational aspects. Because of the probable future importance of this approach the final major task for this presentation becomes an investigation of the issues in and implications of this type of analysis.

I

Both stagnationists and antistagnationists have taken positions relative to the subjective aspects of this problem. However, in both cases these positions have been partial rather than complete. In the first place, the antistagnation group has led the way in this direction by giving special emphasis to this ap-

* Part I appeared in the preceding issue.

[1] This inadequacy is a combination of a tapering off of area and population expansion and insufficient innovation, in the sense that the former condition requires more innovational activity for full employment than would otherwise be necessary.

[2] This approach is through inquiry into the existence or nonexistence of investment opportunity in the "physical and technical" sense.

[3] The extensive factors usually mentioned are, of course, important, but, with expansion as to both area and population admittedly weakening, the proper emphasis c'early becomes innovation.

proach. While these writers have not accepted stagnationist subjectivism, they have advanced a thesis that has similar implications, although it is usually advanced for the express purpose of denying the existence of stagnation. Specifically, this thesis maintains that what appears on the surface to be vanishing investment opportunity (in the stagnationist sense of a weakness in general dynamics) is in reality vanishing investment incentive, and that the factor primarily responsible for the weakening of incentives is the cumulative growth of more and more anticapitalist economic activity.[4]

In the second place, stagnationists have approached the subjective side of this question in an equally halting fashion. On the one hand, they have had little to say concerning antistagnationist subjectivism. On the other hand, however, they have called attention to certain subjective aspects favorable to their cause, although they have been quite lax in their emphasis of these aspects. Professor Hansen states that the essential difference between the nineteenth century economic situation and the current situation is that in the nineteenth century the "one central fact of growth and expansion dominated the whole of economic life. It minimized the risk of new ventures. If optimism had carried railroad building too far at the moment . . . expansion and growth made good the error. Businessmen could look far into the future with gigantic plants, with anticipatory capital outlays, investment plans which had no relation to the present, and which were based upon the expectation of growth and expansion."[5]

Clearly this observation refers to a factor that has little in common with the physical and technical context to which this controversy has so frequently been reduced. But, having advanced this argument, stagnationists have been content to let their opponents ignore its merit. Thus, while the significance of Professor Hansen's view for the problem at hand would in one sense seem to stand by default, yet in another sense it would seem to be almost repudiated by those to whom it contributes most by the failure of these latter to use it in broadening the base for discussion.

The attempt to put these two approaches together into either clear-cut agreement or clear-cut opposition meets with the obvious difficulty that the two groups do not seem to be talking about the same thing. One emphasis is on subjective factors supposed not to be related to stagnation, while the other treats factors supposed to be so related. Only the barest traces of agreement can be found, and these only by implication.

Plainly the debate on the subjective aspects of stagnation leaves much to be desired. In fact in the absence of any constructive meeting-of-minds it is scarcely appropriate to call these isolated remarks a "debate." A more candid description might state that this area has now become the penumbra of the actual controversy—the penumbra in this sense defined as the residue of emo-

[4] H. S. Ellis, "Monetary Policy and Investment," *American Economic Review*, March 1940. Anticapitalist activity is usually associated exclusively with government policy in one of its several forms, but such developments as the evolution of strong labor unions must be added if the broadest grasp of what is meant by this concept is to be had.

[5] Temporary National Economic Committee, *Hearings*, Part 9, p. 3504.

tional biases that makes for an unscientific sparring instead of a scholarly search for truth. The aim of the following analysis is to throw a beam of light into some of the darker areas in this penumbra. To accomplish this objective it will be necessary first to ask and then to answer a fundamental question, i.e., Is there any pertinent connection between these two ideas on the one hand—the stagnationist picture of unbounded confidence in the nineteenth century and the antistagnationist idea of a seriously fettered capitalism in the twentieth century—and secular stagnation on the other hand? The chief value of this investigation will be to determine how far apart opponents and proponents of stagnation are with respect to this part of the discussion, and to uncover the specific points of disagreement.

Perhaps a constructive beginning can be made by examining a little more closely the concept of investment difficulty in terms of the two views concerning it. Elementary economics, in defining effective demand, makes a considerable point of the fact that it has several determinants. In the first place, it simply assumes the existence of a commodity to be demanded. After that it emphasizes the further need for desire, purchasing power, and a specific preference for the good involved. Effective demand for investment should probably be defined in similar terms. Thus, after the debate over adequate technological development has been concluded there would still remain the triple problem of desire, purchasing power, and willingness to buy. The nature of the stagnation controversy being what it is, it would seem reasonable to assume the existence of the last two of this trio in cases where the first is present, although it does not seem realistic to assume without question that Say's Law always and invariably operates in this field.[6]

If, now, there is substantive basis for suspecting a breakdown of effective demand despite the existence of objective investment opportunity, then the term investment difficulty must clearly be composed of more than one component part. There must be, first, an objective component, or investment difficulty that may develop as economic dynamics tends to taper off—a condition that might be defined as a specific situation in which durable equipment will not contribute to the production of other goods having a value in excess of the value of the equipment. But final results are never known for certain until the capital in question has been fully depreciated. By the same token, as has already been emphasized, nothing definitive can be said on the future of this kind of investment opportunity. But, in addition, there must be a second, subjective component of investment difficulty—a component that becomes particularly important as soon as the impossibility of conclusive empirical evidence regarding the first component is recognized. This component can be termed inadequate incentive, defined as the belief that the outcome of a given investment will not be favorable enough to warrant the investment.[7] Thus the antistagnationist

[6] This is particularly true since investment is an economic means rather than an end as in the case of consumption.

[7] The point should be kept in mind for future reference that this definition leaves completely unsettled the question of what is "favorable enough."

emphasis on the incentive component of investment difficulty would seem to be a real contribution.

It should be possible now to make more concrete the element of agreement between stagnationists and antistagnationists. As long as the maturity propositions of "undated" stagnation are generally accepted, antistagnationists must grant the theoretical possibility of a failure of dynamics in this connection.[8] Adding to this their actual emphasis on incentives results in a clear recognition of both components of investment difficulty. Stagnationists in turn have explicitly called attention to both components—tapering off of dynamics and disappearance of nineteenth century confidence. Thus the two modes of thinking do merge at the point of incentives in that both allow for the possibility that incentives may be inadequate.

Given, then, agreement on the theoretical existence of two components of investment difficulty, the difference between stagnation and nonstagnation begins to show up more plainly. Opponents of stagnation in effect maintain that in the present stage of capitalist development there is no investment difficulty arising from the objective component. Proponents of stagnation seem to take the position that both components are now in evidence, but they do not take the requisite pains to show the relationship between the two, or even to show the relationship between the subjective component and anything else. The only thing the student can rely on in this connection is that the causal relationship emphasized by antistagnationists—anticapitalist developments throughout the economy—would not completely satisfy the stagnationist. And, obviously, the reverse is also true.

At this point, however, a further element of parallelism of thought begins to emerge. Even though the cause of incentive deterioration may be different in the two views, certain basic interrelationships implied must be at least comparable. Specifically by giving a special significance to incentives both groups apparently rely on the proposition that, although men are assuredly rational to a degree, they are apparently not guided exclusively by objective considerations. Instead even the most rational men are governed to a substantial extent by inner attitudes, or by their own appraisal of the environment from the standpoint of their particular situation and pattern of values. And the most important fact to note concerning these appraisals or attitudes is that, although they are obtained from interaction with the environment, they do not reflect faithfully the surrounding situation. Thus an attitude is very much like the mirrors in the funhouse. It creates its image from the available material, but the image is malproportioned through selective over- and under-emphasis of portions of this material.[9] In short, as events demonstrate with monotonous regularity, his-

[8] This acceptance can be found in at least one place. See J. A. Schumpeter, *Business Cycles*, pp. 1031 ff.

[9] These ideas have been more thoroughly developed by the writer elsewhere. See H. R. Smith, "Random Reflections on a Mature Economy," *Southwestern Social Science Quarterly*, Dec. 1945.

tory is made much less by what is true than by what people believe to be true. In stagnation this analysis means that a condition of stagnation might develop when capitalists underappraise the economic environment just as readily as when that environment itself is deteriorating. It means also that a deterioration of the environment could readily be magnified through the operation of attitudes and a condition of investment difficulty arise that, if warranted at all, is not warranted to the extent that it actually develops. It need not be emphasized that capital investment is particularly vulnerable to unfavorable attitudes because capital is so peculiarly helpless from an economic point of view after it has been converted from its liquid form.

On the basis of this common reliance on the behavior of attitudes another element of consistency can be demonstrated. The above description of attitude-relationships emphasizes the proposition that attitudes reflect the external environment—however grotesque the reflection may actually be. This means that deterioration of attitudes—whatever its cause—does not occur without some reason. If this is true, then stagnationists and antistagnationists alike must agree that the deterioration of incentives is related as a resultant to some sort of a deterioration in the external environment.

Actually stagnation writing already contains an almost explicit hint that such a broadening of the theory would be permitted. In the above quotation from Professor Hansen the clear meaning is that as capitalism matured two developments—not one—unfavorable to investment took place. First, the tapering off of expansion resulted in a greater burden on technology in supporting investment, and that in an environment in which the difficulty of expanding technology was major. But, second, this same process of maturing or tapering off of expansion had the effect of dampening the enthusiasm of those who would otherwise invest, with the consequence that even some available opportunities for investment would either remain unexploited or be exploited after a delay that might be unfavorable for employment.

A restatement of the antistagnation view in terms of attitude analysis follows much the same pattern. This approach starts with the fact that of late in the evolution of capitalism institutional change has been highly unfavorable for free enterprise. Labor's achievements and the expansion of government have placed on business unfamiliar burdens in the form of taxes, controls, collective bargaining, etc. These burdens have had two consequences for investment. First, they have made it somewhat more difficult to operate enterprises at the same profit level. But second, the same burdens have also impeded investment indirectly as entrepreneurs fear to risk their fortunes against the possibility of still greater burdens, or changes in the "rules of the game."

On the basis of this analysis, there seems to exist a rather fundamental agreement between stagnationists and antistagnationists with respect to important aspects of this problem. Both seem to agree, first, that in theory, at least, there are two components of investment difficulty—inadequate dynamics and inadequate incentive. They seem to agree, second, that in the nineteenth century

the incentive environment for investment was far superior to the incentive environment today. In fact, there is even a core of agreement on the more basic proposition that the incentive environment in the nineteenth century was so favorable that it could for all practical purposes be ignored. This last agreement both reflects and explains the fact that until recently economic analysis, by and large, tacitly assumed the existence of incentive. In turn this tacit assumption now makes it difficult for economists to recognize and deal with the possibility that a different assumption may henceforth be required.

These observations suggest two things that are pertinent to the problem at hand. First, they clearly establish a connection between the objective and subjective components of stagnation. At the same time, however, they establish a similar connection between the subjective element in antistagnation writing and its objective partner. In this way the parallel between the two types of analysis extends still further. The two groups see the same result, which in turn has evolved in a manner that is identical in both cases. The only difference is the cause, and, while causation is of the utmost importance, certain analytical issues are raised by the fact that this is the only difference.

The first of these issues has to do with the proper definition of stagnation. Is it a result and a process or is it a cause? The antistagnation answer is that it is a cause, while stagnationists may be inclined to believe it is a result and a process. Methodologically the former would seem to be the better answer of the two, for to classify two things together that are so different from the standpoint of social meaning would surely be an abuse of the privilege of definition. However, from the narrower viewpoint the close parallel in the two reasoning patterns makes antistagnationists vulnerable to definitional attack.

A second issue points to an even more serious vulnerability for antistagnationists. The result they see of the cause with which they start would not occur apart from the operation of the major premise of stagnation analysis. In other words, the failure of investment incentives would not tend to produce an equilibrium at less than full employment if consumption and investment were reciprocally motivated. But since frustrated potential investment does not automatically transfer to the consumption sector—since the Keynesian psychological law does seem to operate—such an equilibrium does tend to develop. Thus until "undated" stagnation theory is much more thoroughly discredited than it has yet been antistagnation doctrine will continue to contain this embarrassing vulnerability.[10]

In the light of these considerations a third question arises. It is not really enough for the antistagnationists to say that the cause of stagnation (?) consequences that both groups suspect are present in the current situation is anticapitalist activity. It is not enough because a stagnationist might well agree, stressing the point that as an economy matures a simultaneous development is

[10] Antistagnationists can save themselves from this dilemma by maintaining that anticapitalist activity is also the cause of the operation of the psychological law. Such a view has not been expressed, however, and if it were it would lack most of the logical appeal of the original formulation of the law.

the requirement of more and more activity by governments.[11] Considerable support for such a view could be marshaled.[12] Against this argument the anti-stagnationist might be hard put to find an answer satisfactory even to himself.

Present purposes do not necessitate a search for a definitive answer to this question. However, some of the factors involved in an answer might profitably be explored. At the outset the counterposition that the cumulation of government "interference" is simply the result of perverse public policy sounds much more like emotionalism than objectivity.[13] From an objective point of view there seems to be less reason for believing that investment obstacles have been the arbitrary result of deliberate choices than for believing that they have resulted in the main from capitalist evolution. The chief elements in New Deal legislation, to begin with, seem in retrospect to have been clearly indicated by the political and environmental nexus that existed at the time, and there are relatively few social-minded and thinking persons who would meet the situation again in a way basically different from the way it was then met. And this is not true only of New Deal activities. The New Deal, after all, was little more than a telescoping of secular developments long a part of American evolution. As to all of the major steps making up this longer evolution it can likewise be said that there are relatively few social thinkers who would meet these situations basically differently.[14]

Whether or not present policies in the form of public interference through countless devices are stalling the economic mechanism is one of the critical issues of the day. The applicability of the term secular stagnation to this process is only the minor, academic problem. The crux of this question is the matter of alternatives. On the one hand, can public policy maintain a tolerable amount of social justice and still retreat from developing patterns sufficiently to destroy the ill effects of interference from the standpoint of private investment? Or, on the other hand, can free enterprise be counted on to do what it has not succeeded in doing in the past, i.e., adopt an enlightened, long-term view of the social relationships that are a part of capitalism, in the absence of which we have been led consistently in the direction of government interference? Stated

[11] Writers that largely agree with the basic stagnation propositions are more and more insisting that institutional factors may be causally important, or even most important. See Wright, "The Future of Keynesian Economics," *American Economic Review*, June 1945, p. 299.

[12] This seems to be the approach of Professor Angell, *Investment and Business Cycles*, pp. 270 ff. Note that this view does not depend on acceptance of the factors usually associated with stagnation.

[13] See particularly Swanson and Schmidt, *Economic Stagnation or Progress*, chap. III. Professor Hardy applies the term "induced phenomenon" in referring to investment deficiency.

[14] It is essential to point out that a net discouragement of private investment as a result of government activity is by no means obvious. Through such programs as price supports for agriculture, stabilization in the bituminous coal and petroleum industries, Federal Housing Administration aids, and others, an exactly opposite tendency is set in motion. Just where the net balance lies is even less than a guess at the present stage of economic knowledge in this field.

differently the heart of the problem is whether or not the public can enforce a policy of enlightenment on enterprise without injuring investment (and hence social well-being) through interference at least as much as it aids social well-being through the abolition of antisocial results. The fact that the writer is inclined to answer each of these questions in the negative—a stagnationist view—is unimportant. What is of significance is the fact that the stagnationist controversy merges directly into these vast social questions.

The above discussion has necessarily been of a very general nature. A fourth point that can properly be made here consists of a partial list of important propositions that could be mutually subscribed to by stagnationists and antistagnationists—neither side endangering its basic position in so doing.

First, there is the possibility already mentioned that the environment of expansion itself contributed much to the favorable entrepreneurial attitudes of an earlier day in capitalist development. Second, there is the fact that taxes on business enterprise have risen markedly—the factor most emphasized by Professor Angell.[15] This has the effect that the investment opportunities exploited must yield a higher gross return in order to yield a constant net return. Of precisely the same order is the fact that innovations tend to become more and more competitive as technology advances.[16] The consequence of this is that the obsolescence factor used to calculate the profitability of investment must be increased, thus again raising the required gross return. Of like order and importance is the fact that as more and more durable equipment of specialized character is pressed into service, the risks involved in investment tend to increase. The underlying effect of this is to force an amortization life shorter than service life, and still further increase the demand for annual gross return.

This extremely close kinship between the two sets of views can perhaps be summarized as follows. The factors enumerated may possibly have operated in such a way as to narrow *but not close* the margin between the rate of interest and the marginal efficiency of capital. In such a case an unfavorable attitude (caused in part by the narrowing of the gap itself) would in turn operate to completely close the remaining margin. In other words, because of the magnifying quality of the attitude factor, (1) a mere trend toward maturity could be converted into virtual stagnation, and (2) the further the economy has evolved in the direction of maturity the less unfavorableness of attitudes it can successfully withstand. It need scarcely be added that the further capitalism evolves the more sensitive it becomes to the threat of rule changes, whatever may be the justification for them.

It should be particularly noted that all of this is entirely aside from the fact that the average return that the capitalist will actually insist upon is an unknown quantity. It has always been tacitly assumed that no difficulty would be encountered in keeping business operating under conditions of average cost, or in the present instance a marginal efficiency of capital approximately equal to the

[15] *Op. cit.*

[16] In general terms this means a decrease in the ratio of net investment to gross investment.

rate of interest. It might well be that even if this were true at one stage of capitalism's development, events of the past half-century have so altered attitudes that investors' demands have perceptibly and significantly changed. If this should happen to be the case, capital creation may meet with difficulty at a point where there still remains a substantial gap between capital efficiency and the interest rate. This possibility alone makes much of the discussion concerning "objective" investment opportunity substantially less significant than otherwise. It has long been known that the household is less rational than business in its own economy. It would be quite consistent with data developed in other social disciplines if business were less rational than is commonly supposed by economists, or even if it were becoming progressively less rational as some part of capitalist ideology ebbs away, and with it capitalist institutions.

Before ending this examination of parallels and conflicts in the thinking of stagnationists and antistagnationists, several concluding statements are required. First, one major difference between the two views is that the former emphasizes the objective consequences of the tapering off of extensive capital formation and simply assumes the subjective consequences. The latter, on the other hand, emphasizes the subjective consequences of anticapitalist activity and simply assumes the objective consequences.

Second, this difference is formal only and not substantive. But when a search is instituted for the substantive difference between the two views—the really important point—a difficulty is encountered. On closer scrutiny it appears at least probable that the same underlying fact is responsible in the main for the "cause" pointed to by each group. Thus the sociological and political fact of a lessening rate of dynamics for capitalism has apparently produced both the tapering off of extensive capital formation and a tendency toward more and more so-called anticapitalist activity. In other words, one emphasis is on the economic environment while the other is on the institutional environment.

Third, the two views are bound together even more tightly. The factors emphasized by antistagnationists would not produce the admitted stagnation consequences by themselves. It is only when they are interpreted in terms of the Keynesian psychological law that they begin to have any meaning in connection with this problem.

Fourth, it is extremely paradoxical that both sides of the controversy have taken opposite approaches to the matter of institutionalism. Stagnationists cling to an institutionalized consumption and permit the debate to be limited to noninstitutionalized production. Nonstagnationists deny the institutionalization of consumption and emphasize a highly institutionalized production. This may merely call attention to the failure of the parties to reach a meeting-of-minds, but it also strongly hints once more that both groups are in reality talking about two aspects of the same thing.

II

Enough has been said by now to demonstrate the intimate parallel between stagnationist and antistagnationist thinking in its subjective aspects. How-

ever, the several points of contact may have seemed somewhat confused due to the necessity of presenting them in a piecemeal fashion. This being the case it might be helpful if the elements in the foregoing analysis were brought together in a theoretical framework capable of integrating them not only with each other but with the broader problems of capitalism as a way of life.

A social organization consists essentially of two parts—a pattern of attitudes and a set of corresponding institutions. In a smoothly running organization these attitudes and institutions are characterized by a high degree of mutual reinforcement. The institutions operate in such a way as to stimulate attitudes of group approval, while favorable attitudes furnish an environment within which institutions can function with maximum efficiency. The situation is otherwise in a society running less smoothly. Here attitudes and institutions fall short of this high degree of mutual reinforcement with the degree of failure roughly measuring the underlying social conflict.

These principles can be readily applied to social organization under capitalism. It is geared to the underlying motive of profit (the spirit of accumulation—the attitude that maximum private property is a "right" goal), which motivation is activated through a number of institutions complementary in purpose and operation, e.g., enterprise, contract, and competition. It is generally conceded that the attunement of attitudes with institutions was much more harmonious in the nineteenth century than in the twentieth and that there is clearly a trend in the direction of still greater disharmony. The persistent expansion of government functions that narrows the sphere of private business freedom is pointed to as evidence of this trend.

In turn this description can easily be interpreted in secular stagnation terms. Investment, the activity so critical for modern economic well-being, cannot take place if there does not exist an attitude of confidence. For investment means converting liquid funds into fixed capital with all of the risks that accompany such commitment. Unless those who would invest can be assured that a return can be earned adequate to compensate for the risks involved, investment will not be forthcoming. Thus if the attitude underlying capitalism is not continuously fed (if, in other words, the social order seeks to induce a certain pattern of behavior through a promise of rewards and then withholds the rewards), the institutions through which capitalism performs its functions are liable to break down.

These phenomena are infinitely more complex than this brief statement would indicate. It is not only true that a weakening of capitalist attitudes will react unfavorably on capitalist institutions. Equally true and equally significant is the fact that a weakening of capitalist institutions will react unfavorably on capitalist attitudes. For example, it is frequently urged that government activity that encroaches upon the sphere traditionally filled by private enterprise will have the effect of destroying the attitude underpinning of capitalism. And, quite obviously, a vicious circle may thereby be engendered. Government activity seems to be required, which immediately weakens the stream of normal motivation. This weakness must be offset by additional government activity,

and in this way additional weaknesses evolve. And this same circle operates in this way regardless of where it is assumed to begin.

These theoretical constructions can be made more meaningful through the use of Figure 1. The basic process in operation is the maturing of capitalism. This development creates first a tendency for the marginal efficiency of capital to fall more rapidly than the rate of interest. At the same time, second, it results in a greater emphasis on other than immediate, material consumption. These factors, coupled with the separation of the function of saving from the function of investment—a third consequence of maturing capitalism—produces a first form in which investment difficulty appears. This is secular stagnation in its usual sense.

But the maturing of capitalism does much more than this. It destroys the easy expansion of dynamic capitalism and with it the expansionist psychology that characterized the nineteenth century.[17] This result—coming about as it

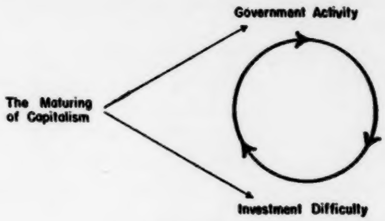

FIGURE 1

does in a number of more or less subtle ways—alters the attitudes prevalent among capitalists and thus produces a second form of investment difficulty.

But the process does not stop even here. Maturing capitalism also develops a number of important deviations from the social justice on which individualism is predicated. The attempt to elevate the level of social cohesion prevailing in these areas requires community action through government.[18] That in turn reacts unfavorably on the attitudes of capitalists reared in and dependent upon a basically different work environment. This produces a third form in which investment difficulty appears.

And, as if all of this were not enough, these three processes set up a significant circle of interaction. Investment difficulty stimulates a still more extensive government activity. This activity then depresses still further the attitudes on which investment depends. Thus, in a fairly meaningful sense investment difficulty is partially caused by itself.

[17] Professor Hansen has already been quoted on this point. Professor Myrdal also has advanced this thesis. See his "Fiscal Policy in the Business Cycle," *American Economic Review*, March 1939.

[18] Professor Schumpeter calls this process 'political sabotage' and there are doubtless some who would agree with him. This characterization, however, seems manifestly unrealistic and unfair.

III

For the convenience of the reader there is outlined below a brief summary of the conclusions reached in the course of the foregoing discussion—Parts I and II.

1. The theory of stagnation clearly consists of two distinct versions although this is rarely emphasized. One version might be called the "undated" version, or an approach unrelated to the question of whether or not capitalism is now suffering from actual stagnation. The other or "dated" version maintains that stagnation is characteristic of the contemporary situation. This version rests upon the propositions of the "undated" approach although the reverse is not true.

2. Even though "dated" stagnation does have reference to the present period it cannot be too strongly emphasized that it was never intended to explain the depression of the thirties. Stagnation would have cycle consequences, but the factors that previously "caused" the cycle would still operate. It is necessary to stress this point because antistagnationists frequently proceed on the contrary assumption.

3. The determinants of "undated" stagnation are twofold: first, a "psychological law" and, second, a law governing physical production functions. The psychological law refers to the persistent failure of a community to spend for consumption the full amount of increments to its income. The production law states that the marginal productivity of capital decreases over time as more and more is employed. Of these two laws the former is at once the more revolutionary and the more important.

4. Little real attention has been given to "undated" stagnation theory. In consequence little has been done to destroy its validity, including the validity that carries over into the field of "dated" theory where most of the debate has been waged. It is surprising (as well, perhaps, as unfortunate) that the fact that stagnation theory of any kind must ultimately rest on these two determinants has been seriously neglected.

5. Although the production law relative to capital is generally accepted as valid, the Keynesian psychological law has been briefly attacked. The attack has taken the form of a denial of the hoarding alternative on the ground that saving is only done in order to invest. In view of the strong case that can be made for the belief that a significant amount of saving is done by individuals who have no thought of investing (and vice versa), it must be concluded that stagnation theory has not been demolished on this front.

6. "Dated" stagnation theory consists of two elements—saturation arguments and technological arguments. The former stress that the tapering off of rapid capitalist growth has been demonstrably unfavorable for private investment (in the face of an implied weakness in the propensity to consume). The technological arguments develop the thesis that innovations from now on will more and more fail to open investment outlets adequate to offset assured savings.

7. "Dated" theory grows directly out of the "undated" theses. The saturation arguments—even if true—would not indicate stagnation were it not for the psychological law that keeps saving high despite diminishing investment opportunities. In turn the technological arguments would be mere question-begging

except for the theoretical proposition that the marginal efficiency of capital must fall over time.

8. Opposition to these "dated" theses varies from the argument that there is no disappearance of investment opportunity from either cause, through the argument that available innovations can readily counterbalance the unfavorable consequences of a slower expansion, to the contention that the demonstrable weakness in private investment is attributable to environmental (institutional) obstacles rather than the causes enumerated by stagnation theory. To this point the saturation thesis has remained virtually intact despite violent criticism, while the technological thesis suffers (and apparently must continue to suffer) from the fatal defect that the approach from both sides is primarily conjecture.

9. "Dated" stagnation theory can be further subdivided into an objective component and a subjective component. Opponents of the theory have forced the controversy into the objective mold and proponents have been content in the main to do battle on this ground. It is quite certain that the originator of modern stagnation theory (Lord Keynes) would not have consented to this limitation, and it is equally certain that stagnation theory loses greatly by being thus narrowed. At any rate little attention has been given to the subjective disappearance of investment opportunity (or incentive) which is by far the strongest case.

10. This last conclusion requires one qualification. Many antistagnationists agree that important institutional obstacles to investment do exist, and that these obstacles do produce some stagnationist consequences. The difference of opinion lies in the refusal of these antistagnationists to concede that these obstacles have any connection with the maturing of capitalism. Rather, they insist, the origin lies in a vicious and perverse public policy.

11. This latter view is presented quite convincingly, although it is far from satisfactory for two reasons. First, most of the major facets of public policy can be justified on the grounds of "social justice," grounds which have persistently grown in urgency as capitalism has come of age. Second, even if the view were wholly correct, stagnationist consequences would not develop in the absence of the psychological law. In fact, it can be stated that in the process of analysis whenever a firm hand is about to be placed on the difference between these antistagnationists and stagnationists, the difference tends to evaporate.

12. The entire case, thus, would seem to be left as follows: The psychological law is probably valid, at least to the extent that the propensity to consume can be expected to lag behind any failure of investment opportunity. The law of diminishing marginal efficiency for capital is also probably valid. If, then, the diminution of extensive opportunities is unfavorable to private investment —as is now generally admitted—the burden on technology will be thereby increased. To the extent that intensive investment does not correspondingly increase its contribution, investment difficulties can be expected to develop. If, in addition, there are institutional obstacles to investment—caused surely in part by capitalist evolution—this situation will be even more acute.

13. It seems conservative to state that no real understanding of stagnation is

possible until there is less thinking of investment opportunities as objective, "given," data apart from the institutional and ideological situation, and until economists cease associating human behavior so closely with material rationality. Both groups of participants in the stagnation controversy seem equally guilty at this point. Stagnationists approach consumption from a broad, institutional viewpoint, but allow investment opportunity to be kept in a narrow, "objective" strongbox. Antistagnationists, on the other hand, refuse to recognize the institutional limitations on consumption, but are quick to emphasize institutional obstacles to investment. Between these two approaches there is possible a much greater area of agreement than has as yet developed.

14. But, just as it is clear now that stagnation must be explained in part on grounds that are not strictly economic, so is it possible that institutional developments may operate also to help ward off the appearance of stagnation. Higher living standards, a greater amount of organized waste in consumption, a higher proportion of the population in the upper age brackets, and the stabilization of security saving to the point at which benefits equal premiums—all of these factors would oppose the onset of stagnation, and all of them are highly probable occurrences. Prediction in this field is impossible, and it is therefore only necessary to say here that such adjustments do not appear to be automatic and that they may fully ward off the onset of a tendency toward stagnation only through sheer coincidence.

SOME COMMENTS UPON THE EFFECTIVENESS OF STATE AND LOCAL AREA DEVELOPMENT PROGRAMS*

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It is obvious that the results attained from area development programs in recent years have been much less than proportional to the very large expenditure of funds and effort. This relative waste of public appropriations and private contributions and of the time of government officials and public spirited citizens deserves critical attention. It is the purpose of this article to identify some of the factors which may have been responsible.

The term "area development" has currency as a descriptive phrase for all organized activities intended to promote economic progress in a spatial sense. In most such programs, however, economic progress appears to be measured principally by the degree of industrialization attained or, more specifically, by the net addition secured to local manufacturing capacity.

Chambers of commerce have long directed a major part of their attention toward increasing the size and influence of local business but the special interest in "smokestacks" received a tremendous stimulus from the national defense and war production programs. The awarding of war material contracts and the enlargement of national industrial capacity through the construction of new plant facilities were direct incentives to the organization or strengthening of means for the presentation of favorable arguments for local war plant location.

The close of the war, rather than halting these activities, brought their intensification. Communities that had succeeded in getting new plants sought buyers or new tenants for the war surplus facilities; towns that had been passed by diverted or renewed their efforts toward attracting migrant or "foot-loose" industries; and both, anticipating a postwar depression, sought every means by which they might enlarge or diversify their industrial or economic base and, thereby, reduce the impact of business decline.

In most states, some form of state agency was established to aid these efforts either through general fact-finding and coordinating functions or by the direct solicitation of moving industries. The federal government recognized the special statistical and advisory needs of the development organizations by setting up service units in at least two cabinet departments.[1] In addition, public agencies such as the Tennessee Valley Authority and the Bonneville Power Administration and regional organizations, exemplified by the New England

* The opinions expressed here are based upon experience gained as advisor to the Area Development Division, U. S. Department of Commerce.

[1] The Area Development Division in the Department of Commerce and the Economic and Resources Development Division in the Bureau of Reclamation, Department of the Interior.

Council, undertook to stimulate and implement economic development in their areas of influence. Railroads, power and fuel utilities, banks, and newspapers also took a natural interest in contributing to the cause of area development.

With activities being carried on at practically every governmental level and by so many civic organizations and private enterprises, one would expect better results than have been attained. The author believes that the factors covered in the following text are at fault. Their order of discussion has no intended significance.

I

Sponsors of development organizations usually know what they basically want—manufacturing plants with heavy purchasing in the area and large payrolls—but formal program determination is often hindered by the inability of the staff to make up its mind as to the respective values of long-range economic planning, conservation of resources, and direct action in influencing specific plant location. If the emphasis is upon planning, complaint will be heard that such a program is unrealistic and too remote from current needs. If conservation is stressed, criticism may be expected upon both the lack of tangible results and the restrictions, potential if not real, to the present utilization of resources. If the organization selects as its major function the finding and attraction of firms looking for new sites, it soon finds itself involved in a difficult action program for which it is usually poorly prepared.

At the state level, it seems impossible to operate a plant solicitation program without charges of local favoritism. Regional organizations, sponsored by interstate governmental action, have not been expected, of course, to participate in the active procurement of new plants for specific sites but have had their troubles as between economic planning and resource conservation and in the attempted coordination of diverse state interests into a sound regional program. As a result, many development agencies have gone through a cycle of initial high promise, floundering among multiple objectives, ineffectual performance, and finally, reorganization or abandonment.

A large part of this confusion could be the result of too little effort devoted to the study of real needs and the failure to appreciate the contributions planning, conservation, and industrial promotion can each make to an integrated area development program.[2]

II

The political complexion of most governmental planning and development agencies and their dependence upon public funds have brought staff and program problems. Limited assurance of tenure, consequent staff recruitment difficulties, and an indefinite appropriation policy create a situation which has too often led to reliance upon expediency rather than planned operations in order to

[2] The titles of state development agencies are revealing. E.g., Arkansas Resources and Development Commission; Virginia Division of Planning and Economic Development; and West Virginia Industrial and Publicity Commission.

present tangible justification for periodic extension of existence and funds. Furthermore, political favor sometimes tends to be more decisive than economic policy in the selection of types of industry for encouragement and in the choice of sites for recommendation to interested parties.

In too many cases, appointment to executive positions in public development agencies serves as a means for political reward and the incumbent may regard his position as a sinecure. Even if qualified men can be induced to serve in the development agency, their efforts may be dissipated on problems of tenure and finance. The customary budget period in public finance is usually too short for both planning and accomplishment in the field of area development and too large a proportion of staff time must be spent in preparing and defending the agency's appropriation request before budget authorities and appropriation committees.

III

There is a strong temptation for the development agency, in its effort to get conspicuous results quickly, to neglect the slower but usually surer opportunity in encouraging the initiation of small-scale and diversified local enterprise, to disregard the potentials for expanding established industries, and to overlook the open field in many areas for providing increased income through tourist and recreational facilities.

It is, of course, a major accomplishment when an outside enterprise is induced to establish a plant within a community and thereupon employs a large number of people. This is particularly gratifying if the area has had few or no large industrial payrolls. In the long run, however, a more secure and stabilizing form of economic development is likely if the same ultimate increase in employment is secured through the application of local capital and enterprise to the creation of a number of smaller diversified industries. Even if the total payroll is less by such action, a dependence upon the fortunes of one plant or a single type of industry is avoided.

No doubt the common preference for outside capital and enterprise attraction is based upon the greater ease in negotiating with large established firms as compared with the task met in discovering small business opportunities, setting up the detailed information required for the guidance of local investors, and locating willing risk-takers. In addition, the directors of the local program ordinarily have considerable personal reluctance in making recommendations to their fellow citizens particularly if the basic data have not been carefully prepared. Outside interests are usually presumed to be able to check locally prepared information or to make their own investigation if leads are supplied.

In communities with an established manufacturing or trading center, an opportunity may be present for its expansion through extending the market area, the addition of new products or services, or the intensification of selling effort. It is an odd fact that relatively few business men, to say nothing of the general citizenry, are fully aware of the variety of products and services available in their own town. A lack of familiarity with the techniques and tools

of market analysis may also be responsible for some of the neglect of the development opportunities in the established business community.

The preoccupation with manufacturing as the avenue for economic progress has resulted in too little attention to the income potential in resort and recreational facilities. Of course, not all areas have important opportunities in this respect but most have some attractions of their own which, if developed and publicized, would draw a significant income. In those lacking these resources, there may be a flow of travelers through the area on their way to other places and these can be induced to patronize hotels, motor courts, trailer camps, eating places, gas stations, and similar facilities if they are made available in strategic locations and in sufficient quantity and quality.

IV

While there is a general recognition that interest in local industrial opportunities must be aroused through some presentation of the favorable factors, the preparation and assembly of such data are seldom well enough done. This failure may be due to a lack of familiarity with what are industrial location factors, to an ignorance of resource inventory and appraisal techniques, or to the frequent inability of the development staff to devote the time and effort to the necessary research and analysis. Much of the needed information will not be found readily available but must be laboriously dug out, confirmed, and appraised for its significance.

The factors that affect industrial location vary in their over-all pattern and individual importance from industry to industry but some 13 have been generally accepted as being fairly common to all. These include:[3] location of production materials, labor, transportation facilities, power, sites, industrial fuel, water, market, distribution facilities, living conditions, laws and regulations, tax structure, climate. Without familiarity with these factors, the development agency is likely to consider only the most obvious and to supply for them insufficient detail. For example, the vital nature of industrial water supply to many industries may be overlooked or, if recognized, its local characteristics are often described in very general terms without such required details as chemical analysis, temperature, and seasonal minimum supply.

Even if the local leadership is able to set up specific objectives in resource inventory and to lay out appropriate methods for their accomplishment, the fugitive and technical nature of the needed facts and the unwillingness or inability of volunteer workers to give the continuous service required lead to delays and discouragement. A high type of stimulative leadership and a strong spirit of persistence among those to whom tasks are delegated are rare but indispensable qualities required for success in such a venture. State, federal, and sometimes regional agencies offer assistance in organizing survey work

[3] "Basic Industrial Location Factors," Industrial Series No. 74, U. S. Department of Commerce, 1947. This publication also describes these factors and presents a guide for their evaluation.

and in uncovering sources of information but seldom perform the actual research and analytical functions.[4]

V

A great deal of time and money has been wasted in the preparation and dissemination of ineffectual state and local promotional material. A large part of this fault is undoubtedly due, as described above, to the lack of sufficient data from which an informative presentation can be made. Further causes may be found in the carelessness with which facts are set up and in the haphazard choice of factors for description.

It is not uncommon for development organizations, who for one reason or another lack the basic facts about their area, to try to overcome data deficiencies by assembling an irrelevant assortment of general statements. These have a strong tendency to be mainly about the area's history, climate, and the more obvious recreational attractions but to lack mention of or appropriate details on other more significant factors. Interesting trivia, half-truths, and unsupported claims are often dressed up with fine paper, color illustrations, and handsome binding, but this type of brochure, while possibly pleasing to the sponsors, will likely lead to dangerously false impressions upon the small unwary local enterpriser and to a prompt loss of interest by location prospects who are in a position to judge the publication's true worth. The promotion pamphlet of this type is not nearly as useful as an ordinary mimeographed statement which presents simply and honestly the vital facts needed for location decision.

When a brochure is completed, a problem arises as to its distribution. Here, again, care is seldom exercised and, in an effort to reach as many prospects as possible in the shortest time, the shotgun method of mailing may be used. Broadcasting booklets to firms listed in purchased mailing lists has the virtue of rapidity but the chances of reaching interested parties at the right time with such a method are remote indeed.

While there appears to be no feasible way to secure fully effective circulation of an area promotional publication, the use of advertising space in business and trade publications to solicit inquiries and dependence upon the prepared statement for the backbone of the response have been found to be reasonably successful.

VI

The development agency too commonly assumes that the presence of certain natural or physical resources which makes it possible to manufacture a product is assurance that success is certain. The fact that whatever business is established must be able to sell its product or service at a profit is overlooked or not given sufficient consideration. This means that not only must the inventory

[4] Large well-financed area development organizations can hire qualified survey personnel or retain professional research agencies but such facilities are usually beyond the means of the smaller community promotion group.

and appraisal of resources be made but a survey is essential to discover whether or not there is a profitable market for the proposed item.

Unfortunately, local enthusiasm has a tendency to confuse physical possibility with economic opportunity and steps may be taken to promote enterprises which have no chance of maturity. The established industry looking for new or additional locations is not so likely to make this error but may pass by suitable sites in favor of others no more attractive but which have provided market data as well as other pertinent information.

It must be recognized, however, that relatively few community development organizations have personnel qualified to conduct satisfactory market analysis. If locally backed small industries are being encouraged and if local marketing talent is not available on a volunteer basis, it may be advisable to retain professional counsel. The need for an adequate market survey is generally great enough to warrant such action. For the purpose of interesting large outside concerns, it will be enough to gather as many basic marketing facts as possible.[5] The prospect will then be able to expedite its own study of the market opportunity.

VII

The active support of community programs for economic development is usually found among wholesalers and retailers, banks, newspapers, public utilities, and transportation agencies with more or less lukewarm cooperation from established manufacturers. The last group sometimes fears that new industries will unfavorably alter the status quo and bring greater competition for sites, materials, services, and labor supply. In fact, it is not unknown for chambers of commerce, where dominated by large manufacturers, to withhold official support or to extend it only indirectly. It is a difficult but necessary task to overcome this occasional preoccupation with short-run effects, wherever it appears, so that the program can have the full benefit of the pooled intelligence and experience within the community.

Similarly, the interest and assistance of local labor organizations, if any, the professional men, and local government officials should be enlisted. If the community is dependent upon an agricultural hinterland, the farmers, farm organizations, and the county agricultural agent should be brought into active participation. Failure to secure the cooperation of all the elements in the area which have an economic stake in its future may be and often is detrimental to the effective operation of the development program. Indifferent or untapped groups are handicaps enough but special care must be taken in building the organization and in delegating responsibilities in order to avoid the creation of hostile interests.

VIII

A proper function of a state development agency is the coordination of local expansion plans to assure practicable objectives consistent with the best in-

[5] These include population and its classification; wealth and income characteristics; available market channels; transportation costs; and consumer buying habits.

terests of the state as a whole. Similarly, state activities deserve regional coordination and regional, national. This has not been accomplished and each community proceeds pretty much with its own plans regardless of their competitive or possibly destructive consequences to the welfare of the over-all economy. Ignorance of or disregard of the impact of the local program may not only run counter to the general good but uncoordinated plans may well be certain of failure because of maladjustment to the needs or capacities of nearby areas.

The problems met in framing objectives, particularly at the state level, have already been discussed. There should be no quarrel with the need for coordination or as to its significance as a major function of the state development agency. An important and productive phase of this activity is the assembly of a central file of data on location factors for ready reference by local promotion groups and location prospects. Most states, for instance, have geologists and conservation experts who are in a superior position to supply not only specific details on the physical resources and needs of areas within the state but can offer advisory and consultative services for the betterment of local planning. It is a sad truth, however, that local development sponsors either are ignorant of the existence of these facilities or fail to utilize them.

IX

A community group may proceed with measures to attract industry and then discover, too late, that new plants are often a mixed blessing. This is a particularly likely result in the case of towns that have had little or no industrial experience. For example, it may be found that public services must be expanded to meet industrial needs and extended to reach a growing population. Additional or new facilities for water supply and waste disposal, the increased expenditure for street construction and maintenance, and greater needs for fire and police protection may present serious budget problems. Housing shortages are aggravated and provision must often be made to cope with industrial smoke, odors, and noise. Realty values may be altered and there will likely arise a demand for zoning regulations and the orderly planning of the community's physical growth—too late to be fully satisfactory.

Furthermore, there is a considerable probability that the development program, if not carefully planned and controlled, will draw some undesirable or even fraudulent promotions to the community. The latter will be most likely to appear if local financial assistance is offered to new industries.

X

The most pressing need and best opportunity for corrective measures lie in the field of state and federal assistance. The responsibility for framing and executing sound development programs for local action is within the local community itself but the states and the federal government should be much better prepared than they now are to perform fact-finding and counseling functions and to publicize their availability. Area development agencies can then properly present and the prospective businesses easily secure usable location

data. The existence of adequate information on business opportunities will stimulate the interest of local capital and enterprise and attract the attention of migrant firms. Both will find a decision easier to make and the risk of failure materially reduced.

If satisfactory fact-finding aid is supplied, the observed shortcomings in lack of resource inventory and effective promotional material will be greatly lessened. The provision of proper counseling should bring improvement in the determination of sound objectives, the balancing of local and outside enterprise attraction, a better recognition of the importance of market factors, and closer attention to the need for full local cooperation. Coordination of local programs will be facilitated and the community groups can be better informed about the possible liabilities accompanying industrialization. There is little, apparently, that state and federal development authorities can do, themselves, in removing the political pressures. Constitutional provision for the agency and a rigorously respected civil service system will reduce the evils of indefinite agency life and uncertain staff tenure but the assurance of adequate and continuing appropriations rests upon public approval of the results attained.

SUPERVISORY EMPLOYEES AND THE TAFT-HARTLEY LAW

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I

Refusal by the United States Supreme Court to grant certiorari and review the decision of a lower court upholding the provisions of the Taft-Hartley Act regarding supervisory employees signifies that those provisions are constitutional. It is evident that another turning point has been reached in the seesaw battle waged by foremen to secure recognition under protection of the law. The ultimate outcome will have a profound effect on the structure of American industry.

When the National Labor Relations Act (Wagner Act)[1] was passed in 1935, supervisory workers already had made much progress in joining unions in the printing trades, in the maritime industry, and on the railroads. Like the other workers in the labor movement, foremen had to depend upon their own economic strength to force the employer to recognize and bargain with them. Although employers, in general, had been opposed to the unionization of their foremen and often had agreed to negotiations only after strikes had been called or threatened, years of bargaining had brought about an adjustment. No unusual problems were present in any of these industries which were ascribable to the fact that supervisors were organized.[2]

Beginning in 1939, efforts were made by supervisors in mass production industries, in coal mines, and in other sectors of the economy to form or join unions. In some industries independent unions of foremen were organized, but in others supervisors joined the union of their subordinate workers. Foremen then called upon the National Labor Relations Board for legal support to force the employer to deal with them.

After several years of vacillation, the board decided in 1942 that the law, which was not specific regarding this question, entitled the foremen to protection.[3] In subsequent decisions the board did not differentiate between foremen who were members of independent unions and foremen who joined unions of the rank and file workers. In either situation the employer was compelled to deal with them and was prohibited from discriminating against them when such discrimination was in retaliation for their union activity. The NLRB laid down the principle that the law applied to foremen in the same way that it related to the ordinary production workers. Foremen had the *right* to organize.

[1] 49 Stat. 449.

[2] For a discussion of the history of the unionization of foremen as well as an analysis of the general problems arising from their unionization, prior to the Taft-Hartley law, see Robert D. Leiter, *The Foreman in Industrial Relations*.

[3] *Union Collieries Coal Co.*, 41 NLRB 961 and 44 NLRB 165.

A change in the personnel of the board brought about an altered decision in 1943.[4] From that time until 1945, it was the board's policy that supervisors did not constitute appropriate units and therefore were not able to utilize the facilities created by the NLRA to compel the employer to bargain. However, the board further interpreted the law to prevent the employer from discriminating against his supervisors because they formed unions.[5] Then the board reversed itself again.[6] Once more foremen were given the full protection of the act.

Early in 1947, the U. S. Supreme Court ruled that foremen who were organized in independent unions were entitled to the protection and rights granted by the NLRA to ordinary production workers.[7] The court maintained that there was no basis in the law upon which to eliminate supervisors from the protections which Congress had provided. Since this decision did not depend upon the fact that the union involved was independent, it appeared as if the Supreme Court would enlarge the scope of this decision to include foremen who were affiliated with a rank and file union.

Congressional hearings on the issue were recurrent. Public discussion of this matter was relatively frequent. Intense opposition was manifested by management to any interpretation of the law which gave special privileges to supervisory personnel, but labor unions, in general, approved the construction of the act in which the term "employee" covered supervisors.

Employers argued that foremen must remain faithful representatives of management in order to effectuate production schedules and enforce discipline among subordinate employees, and that unionization lessened the disposition of the foremen to do their utmost towards these ends. The loyalty of the foreman to his firm must be assured if the policies of the employer are to be carried out and if efficiency is to be maintained, for the foreman ordinarily has the power to hire and fire and in addition handles the grievances of the production workers.

The board and the courts, however, maintained that supervisors have a dual status. Though they are agents of the employer in dealing with the production workers and must support his interests, supervisory employees have problems concerning their own wages, hours, seniority rights, and working conditions. In these respects their desires may be adverse to those of the employer and yet have no effect on the proper performance of duties and responsibilities in the production process. Though the possibility exists that foremen affiliated with a union of the workers whom they supervise might be subject to pressures tending to weaken the exercise of their control, such conditions are unlikely when independent unions of supervisors are involved.

Management claimed that supervisors were spurred to unionization by NLRB protection and that as a result the number of strikes by supervisors increased sharply. The evidence does not support this contention. The figures on strikes

[4] *Maryland Drydock Co.*, 49 NLRB 733.

[5] *Soss Manufacturing Co.*, 56 NLRB 348, 1944.

[6] *Packard Motor Car Co.*, 61 NLRB 4 and 64 NLRB 1212; *Jones & Laughlin Steel Corp.*, 66 NLRB 386, 1946.

[7] *Packard Motor Car Co.* v. *NLRB*, 330 U.S. 485.

by foremen are meager and inconclusive. Moreover, the Ford Motor Company had entered into negotiations with a union of foremen before the NLRB handed down the first decision under which it recognized the right of foremen to organize.

Foremen unionized because they saw the necessity of doing so. Unions of production workers in the newly organized mass production industries and in other industries were achieving advances in wage scales and improving working conditions. The spread between production workers and foremen was narrowed as gains by supervisors lagged behind. When it became clear to the foremen that individual bargaining was not effective in maintaining the gap between them and their subordinates, they turned to collective bargaining. A large number of employers bitterly resisted organization of their supervisors.

The culmination of years of acrimony over the unionization of foremen was reached in 1947 when Congress passed the Labor Management Relations Act (Taft-Hartley Act)[8] on June 23, over the veto of President Truman. This law specifically removes from foremen the protections which they previously had enjoyed. It states:

Sec. 101.

Sec. 2. (3) The term "employee" shall .... not include .... any individual employed as a supervisor....

(11) The term "supervisor" means any individual having authority, in the interest of the employer, to hire, transfer, suspend, lay off, recall, promote, discharge, assign, reward, or discipline other employees, or responsibly to direct them, or to adjust their grievances, or effectively to recommend such action, if in connection with the foregoing the exercise of such authority is not of a merely routine or clerical nature, but requires the use of independent judgment.

Sec. 14. (a) Nothing herein shall prohibit any individual employed as a supervisor from becoming or remaining a member of a labor organization, but no employer subject to this Act shall be compelled to deem individuals defined herein as supervisors as employees for collective bargaining.

These provisions became effective on August 22, 1947.

Although the important unions of railroad supervisors have not been affected, since railroad employees are exempt from the provisions of the LMRA, important developments have taken place in the last few months which have affected other unionized foremen. The legislation has reduced the power and prestige of the Foreman's Association of America, an independent union of foremen. It was founded in 1941 and flourished during the succeeding years, especially in automobile, rubber, and metal plants, where numerous contracts were negotiated. The coal supervisors' union, first organized in 1940, also was affected adversely. In addition, the legislation is directly responsible for a new set of decisions which are being handed down by the NLRB on the rights and duties of supervisory workers.

II

Of all the unions of supervisors which emerged after 1940, the Foreman's Association of America was the largest and most important. It began with a

[8] 61 Stat. 136.

handful of foremen in one of Ford's Detroit plants, but it grew rapidly. Peak membership was reached early in 1947, when 33,000 foremen were enrolled. The policies of this union never have been extreme. The FAA maintains that foremen constitute the third segment of the American working force, and that they must be considered separately from either management or labor. In order to protect themselves and to secure better wages, hours, working conditions, and increased job security, supervisors must join unions. However, unlike most labor unions, the FAA does not argue that seniority should be the controlling factor in the promotion of its members, but places considerable emphasis on merit. It believes that employers should provide foremanship training to improve the technical and administrative efficiency of supervisors.

The most important contract made by the Foreman's Association of America had been with the Ford Motor Company. Negotiations between the two organizations began in 1942, and a general contract was signed in May 1944. The company recognized the union as the bargaining representative for foremen who were members of the FAA in Ford's Detroit plants. The FAA had organized the company very thoroughly so that nearly all of the supervisors belonged to the union. The union sought constantly to increase its bargaining strength and enlarge its jurisdiction. Though the contract was renewed from year to year, Ford made minor concessions only.

When the agreement came up for renewal in 1947, the Packard decision already had been handed down by the U. S. Supreme Court. The union felt stronger. It demanded that the company grant it exclusive bargaining rights at Ford for all foremen; and it requested that the company check off union dues from all supervisors. Ford was willing to renew the contract on the basis of the old terms but it obstinately refused to concede the new demands. Both sides gave notice of the intention of terminating the agreement. After the contract expired, the company announced that it would no longer recognize the union of foremen. The FAA called its members out on strike.

Although fear was expressed that the strike might paralyze the operations of the Ford company, no such results became evident. Nonunion foremen stayed on the job. Members of the United Auto Workers Union, who constitute the rank and file workers in the industry, were ordered by their leaders to continue to work but to refuse to accept positions as foremen. The teamsters' union decided to ignore the picket line and it carried supplies into and out of the plants.

Continuation of the strike increased the tension. Violence flared and several nonstriking foremen were beaten by the strikers. During the strike, Congress passed the Taft-Hartley law. The confidence of the strikers, which waned as the weeks went by, gave way to despair. Leaders of the FAA decided to capitulate to the company, and foremen went back to work in July, without gaining any concessions. The strike had extended over a period of more than six weeks. Ford then fired 32 of the supervisors allegedly for having engaged in violence. The union was too weak to take any further action.

The defeat suffered by the FAA at Ford has shattered the backbone of the union, at least temporarily. Although the union retains a membership in the

plants of the company, it lost the recognition of a major employer. Since then the FAA has been relatively impotent at the Ford Motor Company. Ford, however, has undertaken an energetic campaign to rewin the complete confidence of its supervisors and is developing plans to integrate foremen more fully into management.[9] No longer are foremen required to punch time clocks in the Ford plants.

The Taft-Hartley legislation has been the immediate cause for a decline in the fortunes of the FAA. The union has been forced to retrench in order to save money. It discharged six paid officers, several of whom had done much to build the organization. In another economy measure it transferred its scheduled convention for 1947 from Cleveland to Detroit, where the national headquarters are located. The FAA also abandoned its lobbying activities. In addition to the disaster which the union sustained at Ford, the chapter at the Packard Motor Car Company withdrew. Early in 1948, on the other hand, the Hudson Motor Car Company agreed to negotiate with another chapter of the FAA, after the foremen had struck the Detroit plant. As the future of the FAA hangs in the balance, the membership authorized the president of the union to seek a merger with either the AFL or the CIO.

The second major union of foremen was organized in the coal fields. Unionization of coal mine supervisors had been resisted by the operators. The Mine Officials' Union of America began to unionize the supervisors in 1940, but the task was difficult and the success which the union achieved was not significant. In order to increase their power, the members of the MOUA formed a local in District 50 of the United Mine Workers in 1943. It was named United Clerical, Technical and Supervisory Employees Union. The UMW waged a campaign for several years with the mine owners to gain recognition for the supervisory workers. Although many thousands of coal foremen joined the UCTSE and numerous strikes were pulled, these efforts were unavailing.

The status of the UCTSE was far different from that of the FAA. Though the latter union was independent, the coal mine foremen were members in the same organization which included the miners whom they supervised. This created serious complications, for it subjected the loyalty of the supervisors to question. The oath of the United Mine Workers requires all members to swear that they will endeavor to improve the working conditions of fellow union members. On diverse occasions, however, the coal supervisor must set the wage of his subordinate. Clearly his duty to his employer to keep costs down would conflict with his duty to the union to increase wages.

The coal operators claimed that a supervisor under the control of the union would be more inclined to be lax regarding safety provisions if strict enforcement of the rules were distasteful to the union. The operators also feared that the supervisor might arbitrarily rule certain mines unsafe and thereby keep the men out of the mines, if it were to the advantage of the union for him to do so. But the most significant criticism of this form of foremen's organization is that the supervisor loses some of his power to discipline the men whom he directs when

[9] *New York Times*, Feb. 7, 1948, p. 28:6.

he is subject to the authority and fears the control of the union. His allegiance is divided between the union of production workers, of which he himself is a member, and the employer.

As its organizational campaign continued, the UCTSE secured the help of the NLRB. After much difficulty the union succeeded in obtaining a written contract from the Jones & Laughlin Steel Corporation during a period when the government was operating the mines. This was good news to the union. It appeared as if recognition of the UCTSE would be forced upon reluctant coal operators. The Jones & Laughlin company took its case to the federal courts. It argued that the Wagner Act did not require an employer to deal with a union of foremen when these foremen were affiliated with the union which also represented the rank and file workers in the same industry. The company was overruled by the first court opinion handed down[10] and it seemed to be on the way to defeat in a United States Supreme Court test, when Congress passed the Taft-Hartley law.

The position of the UCTSE crumbled. The government no longer supported the demands of the supervisors to secure recognition. The United Mine Workers did not feel that any of its economic strength should be expended in forcing the operators to grant recognition, especially since the operators were so adamant.

At the end of July the UCTSE was dissolved and the lower ranking supervisors, such as coal inspectors, joined the UMW directly. In order to keep the other coal supervisors union conscious and ready to act if in the future the government should renew its policy of protection and recognition of the right of foremen to organize and bargain collectively, the Clerical, Technical and Supervisory Union of America was incorporated as an independent union. Its objective is to absorb those supervisors who are ineligible to become members of the UMW.

The two unions in which the unionization of foremen had made the most progress during the war years received severe setbacks. The tendency towards the rapid organization of foremen has been arrested by the Taft-Hartley law. The law does not remedy the underlying and basic grievances of supervisors, however, and unless management undertakes to do so, renewed and vigorous demands by foremen may be anticipated in spite of the legislation.

The Labor Management Relations Act of 1947 specified that the provisions with regard to supervisors should become effective 60 days after the date of enactment. The National Labor Relations Board, therefore, ordered its regional offices to drop all foremen's cases from consideration, though partly processed cases were pushed to a conclusion where possible.

The FAA challenged the right of the board to stop action on foremen's cases. It asked the federal courts to rule that the new law is unconstitutional because clauses relating to foremen are indefinite and uncertain and many of the provisions abridge freedom of speech and association and infringe on the rights guaranteed to the union and its members by the first and fifth amendments to the Constitution. Several test cases affecting the rights of foremen were pending before the Supreme Court. Companies which had been ordered to bargain with

[10] *Jones & Laughlin Steel Corp.* v. *UMWA*, 159 F. 2d 18, CCA DC, 1946.

the FAA before the passage of the Taft-Hartley Act were appealing the orders. The FAA sought to intervene in these court actions because it claimed that the NLRB no longer was protecting the interests of foremen.

In the *L. A. Young Spring & Wire Corporation* case, the NLRB had certified the FAA as the representative of foremen in the plant[11] and had ordered the company to bargain.[12] This decision was made under provisions of the Wagner Act. When the Circuit Court of Appeals ruled on the case the new law already was in effect. The circuit court set aside the order of the board because the board was not empowered under the Taft-Hartley law to issue such an order.[13] On February 16, 1948, the Supreme Court refused to review the decision of the lower court.[14] This action left in effect the ruling of the circuit court that the provisions of the LMRA regarding foremen were valid.

III

The functions of the NLRB under the new law remain substantially unchanged. The board determines the bargaining representatives of employees and attempts to eliminate unfair labor practices. Supervisors come within the purview of board action in three ways. Firstly, unfair labor practices may be committed by supervisors if they interfere, restrain, or coerce production workers. Secondly, the board must determine the authority of the employer to interfere in the union activities of his foremen, and the board rules on his *privilege* to discriminate against them. Thirdly, the NLRB must decide whether the employer may refuse to bargain collectively with supervisory employees. In each of these situations a determination of the supervisory status of the affected employees must be made.

Continuing the line of decisions initiated under the Wagner Act, the board holds the employer responsible for the actions of his supervisors. The board has ruled that the Taft-Hartley law makes the employer responsible for the circulation of a petition by a foreman opposing the closed shop.[15] When the employer did not disavow the partisan acts of his supervisors, the board decided that he interfered in the union organizational activities of his employees.[16] A similar decision was reached when a foreman ordered a union organizer off the premises and remained present throughout a union meeting on company property held after working hours.[17]

Although the law appears to permit the employer to discriminate against foremen, several exceptions have been noted by the board. The NLRB has pointed out that the exclusion of supervisors from the status of employee does not affect the power of the board to protect applicants for the job of supervisor against a

[11] 65 NLRB 298, 1946.
[12] 70 NLRB 868, 1946.
[13] *L. A. Young Spring & Wire Corp.* v. *NLRB*, 163 F. 2d 905, CCA DC, 1947.
[14] *Foreman's Association of America* v. *L. A. Young Spring & Wire Corp.*, 21 LRR 168.
[15] *Georgia Twine & Cordage Co.*, 76 NLRB No. 12, 1948.
[16] *Fulton Bag & Cotton Mills*, 75 NLRB No. 111, 1948.
[17] *Lake Superior Lumber Corp.*, 75 NLRB No. 72, 1947.

discriminatory refusal to hire because of union membership and activities.[18] The board argues that an applicant is a member of the working class, and is protected by the act until he is hired as a foreman. The general counsel of the NLRB has argued before the U. S. Supreme Court that if the discharge of a supervisor has the effect of coercing employees in their organizational rights, the board may order his reinstatement and back pay.[19] Though this position by the NLRB protects foremen from discrimination, it is intended solely to protect the rights of nonsupervisory employees. The employer, however, may require employees promoted to the rank of foreman to resign from the union of production workers.[20]

The effect of this position is to assure rank and file members of the unions that union activity as ordinary employees may not be used by the employer to hinder promotion in the event that such opportunity arises. The employer is advised that he may not discriminate against foremen if the action adversely affects the rights of the workers.

The LMRA bars the board from finding any unit appropriate for foremen or supervisors. Foremen may organize, but they must depend upon their own economic strength to force recognition from the employer. On the other hand, the employer, if he wishes, may voluntarily negotiate and deal with a union representing supervisors, or with the representative of a unit which includes both foremen and subordinate employees.

The definition of "supervisor" is set forth in the law, but the classification of many categories of workers remains doubtful. Designation of the status of these employees lies within the discretion of the board and must be determined by it. It has ruled that the language of the law does not create any presumption that employees are nonsupervisory; and that even when they are engaged in manual labor other factors must be evaluated before their status is established.[21] The board has decided that managers who do not have the power to hire and fire, but whose recommendations in these matters are given great weight by their superiors, must be classified as supervisors and excluded from the benefits of the law.[22] Although it previously had included them, the NLRB has excluded assistant foremen from an appropriate unit because of the provisions in the amended NLRA.[23] It did likewise in the case of two supervisors in a lithographing company.[24] Even when both the employer and the union agreed that working foremen were not supervisors and desired their inclusion in the unit, the board refused to accede to the demand.[25]

However, by a three-to-two vote the board decided that inspectors are not supervisors and put them in the same unit with production and maintenance

[18] *Briggs Manufacturing Co.*, 75 NLRB No. 65, 1947.

[19] NLRB brief in *Vail Manufacturing Co.*, 21 LRR 9; NLRB brief in *Budd Manufacturing Co.*, 21 LRR 75.

[20] *Paraffine Cos., Inc.*, 76 NLRB No. 26, 1948. See also 22 LRR 28.

[21] *Armco Drainage & Metal Products, Inc.*, 77 NLRB No. 139, 1948.

[22] *Paramount Pictures, Inc.*, 77 NLRB No. 74, 1948.

[23] *Baker Manufacturing Co.*, 75 NLRB No. 122, 1948.

[24] *Marshall & Bruce Co.*, 75 NLRB No. 13, 1947.

[25] *Murray Co.*, 77 NLRB No. 84, 1948.

employees.[26] The inspectors in this case worked under separate supervision. They had the authority to pass or reject materials and to shut down a machine turning out defective products. Rejected materials were operated upon again by the production workers at a lower wage scale. The majority opinion stated that other inspectors might be classified as supervisors or professionals.

The board has ruled that group leaders who exercise occasional supervisory authority are eligible for inclusion in a unit with other employees.[27] The board also has decided that laundry store managers who have no power to hire or discharge workers are not supervisors or managerial employees within the meaning of the Taft-Hartley law.[28] It held that they are not managerial in the sense that their interests are identified with management.

Organization for bargaining purposes in the maritime industry will be affected seriously by the new law because the organizational rights of supervisors in this industry always have been protected by the board. Stewards now are excluded from units of unlicensed personnel, although they had been included formerly on different occasions.[29] Stewards are supervisors within the meaning of the law because they hire, discharge, approve overtime, and grant working privileges to men working under their direction.

Early in 1948 one of the circuit courts of appeals reversed the decision it previously had handed down enforcing an order of the NLRB.[30] The board had ordered the company to bargain collectively with a union representing a unit of mates and to cease its unfair labor practices against the mates. This order was affirmed by the court prior to the passage of the Labor Management Relations Act. But after enactment of the LMRA, the court refused to enforce the NLRB order, although the board had continued to request enforcement. It seems that the court was convinced that mates are supervisory employees.

Since the enactment of the amendments to the NLRA no definitive position has been taken yet by the board on several critical questions. It appears as if the bargaining foundations of licensed officers in the maritime industry return to the status preceding the enactment of the Wagner Act, even though general acceptance of the right of mates and engineers, and sometimes even of masters, to organize and bargain collectively had been recognized by employers. Nor has the board clearly modified its long established practice of including foremen in the unit of the rank and file workers when dealing with the printing industry because no clear-cut case requiring a decision on this issue has been presented. There is little doubt, nevertheless, that the statute as it stands would not permit the board to include the supervisors in the unit, especially if the employer should protest.

[26] *Clayton Mark & Co.*, 76 NLRB No. 33, 1948.

[27] *Cole Instrument Co.*, 75 NLRB No. 44, 1947; *S-P Manufacturing Corp.*, 75 NLRB No. 83, 1947.

[28] *Palace Laundry Dry Cleaning Corp.*, 75 NLRB No. 40, 1947.

[29] *Schneider Transportation Co.*, 75 NLRB No. 107, 1948; *Kinsman Transit Co.*, 75 NLRB No. 16, 1947.

[30] *NLRB* v. *Wyandotte Transportation Co.*, 166 F. 2d 434, CCA 6, 1948.

IV

The operation of the Labor Management Relations Act for a period of 12 months enables several tentative conclusions to be drawn regarding the status of supervisory employees. The general movement to unionize which existed among foremen has been weakened. Many firms have seized this opportunity to remedy various alleged grievances which have irritated supervisors. These companies may succeed in winning the complete confidence of their foremen and in reducing the necessity and desire for organization. Most firms undoubtedly will not undertake any special programs for supervisory employees. The supervisors with grievances will hesitate to unionize only temporarily. Before long it may be anticipated that renewed campaigns to organize foremen will be undertaken.

Should the AFL or CIO become interested in unionizing these workers rapid progress in achieving organization may be anticipated. Although the national federations of labor previously have been reluctant to emphasize the unionization of supervisors because of the serious disagreements which had been common between rank and file workers and foremen, much of this antipathy has been eliminated in recent years by a newly evolved relationship between the groups. Many of the men promoted to supervisory positions have risen from among the ranks of the unionized production workers. Therefore they may be expected to look with greater sympathy at union members and union objectives. In addition they will not be as reluctant to join unions as many of them formerly were. This development and the removal of legal protection from the organization of foremen now makes it more likely that supervisors will link themselves with other organized workers in order to increase their bargaining strength, rather than unionize independently.

The National Labor Relations Board is building up a new set of precedents regarding foremen. The employer remains responsible for the unauthorized actions of his supervisors unless he effectively disavows the actions. Foremen are protected from discrimination only if such decision is necessary to guarantee the rights of ordinary workers. This loophole may be utilized increasingly by the NLRB to prevent industrial strife. The board will not set up any bargaining units which include supervisors, but industries such as printing and maritime, where the existence of unionized foremen has become entrenched firmly, may be expected to maintain the arrangement successfully despite the LMRA.

MINIMUM WAGES AND THE LEVEL OF EMPLOYMENT

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Most of the studies of the effects of minimum wage laws on the level of employment have concluded, very simply, that in the absence of fortuitous offsetting circumstances, minimum wage legislation must result in unemployment. These analyses, however, have overlooked many other theoretical possibilities which, when adduced, show that these simple results are far from conclusive.

This article represents an attempt to point out some of the other possible effects of minimum wage laws on the level of employment. It will not be maintained that minimum wage laws do not, under any circumstances, result in unemployment; rather, it will be suggested that they do not *have* to have this effect.

It is to be seen that minimum wage legislation may have two possible results, namely, the raising of wages under some circumstances or the prevention of a decline in wages in other conditions. The effects, however, are the same in both cases, so that, in pursuing the theoretical examination of the possible consequences of such legislation, wage *rises* will be analyzed as the relationships between wages and costs of production, and wages and demand are reviewed ultimately with the objective of seeking the effects of these wage changes on production and employment.

I

Let us first seek to determine the relationships between wages and demand. In pursuance of this analysis, it is necessary to distinguish between the effects of a legal minimum wage as applied to a single industry or a sector of the economy and the effects of such a law as applied to the economy taken as a whole.

If, for example, wages are raised in a single industry prime costs might be expected, *ceteris paribus*, to change in the same direction. Effective demand for the products of the industry might rise because of the increased expenditures made possible by the increased wages. However, because it is unlikely that the workers employed in this industry will spend more than a very small fraction of their incomes on the products of this industry (that is to say, their increase in demand is likely to be diffused over the entire economy), the effects of the wage rises on the demand for the products of this particular industry may practically be ignored. The same is likely to be true, though to a lesser degree, perhaps, of a wage increase as applied to a given section of the economy. Thus, in these two cases we may expect costs to increase to a greater extent than demand.

But when a wage rise is applied to the economy as a *whole*, no longer may we validly ignore the effects on demand. As a matter of fact, we may be justified in expecting the aggregate demand function for the community to rise directly in a manner consonant with the wage changes. Reasoning to support this view will presently be developed. At this juncture, we cannot, with real discernment, assert that costs must rise more than demand.

Before entering upon the theoretical analysis, the reader is again reminded that minimum wage laws will have two possible effects, namely, the advancement of wage rates or the prevention of their decline below a certain point; in each of these cases, however, the theoretical analysis would be the same. Our analysis, then, will concentrate on examining the possible consequences of wage rises, first, in a single industry or sector and then in the economy taken as a whole.

An increase in wages due to minimum wage legislation in a single industry will probably raise marginal costs and prices. Effective demand in this industry, if elastic, will probably fall off in spite of the higher incomes of the workers engaged in this industry, because, in all likelihood, their increased monetary demand will be diffused throughout most of the economy, making their greater effective demand almost negligible in the individual sectors. Production and employment in the affected industry will, therefore, be curtailed. If the demand for this industry's products is inelastic, demand, of course, will be maintained, as will profits, so that curbing of output and employment do not have to follow. It should also be emphasized that a rise in wage rates will not act as a restraint upon production to the same extent in all cases. Labor costs are not the same in all industries. In an industry with a high capital intensity, the rise in minimum wage rates is not likely to have a significant effect on costs and, therefore, on prices. In this case the effects of the minimum wage law are not exactly determinate. However, with higher marginal costs, some price increase would seem extremely likely, and in the absence of a similar change in monetary demand, effective demand will probably fall off to some extent. Thus, unless offset by some technological or organizational adjustment, a minimum wage law affecting only a single firm or industry probably will have some restrictive effects on employment.

In view of the fact that minimum wage laws have now reached the national level, it is even more pertinent to examine the effects of general advances in wage rates.[1]

Classical theory would hold that (other things being equal) marginal costs would rise all along the line and, in the absence of a rise in the marginal productivity of labor, unemployment would result. But this conclusion seems far too simple and one-sided. It is possible that classical analysis is inadequate as a means of explaining the sequence of events following the advent of minimum wage laws.

The fault would seem to be, in part, an error of omission. That is, in analyzing the effects of general wage changes, classical theory has attempted to reason from the particular to the whole. It has concentrated solely on the effects of general wage changes on marginal costs, ignoring completely the effects of such changes on effective demand. It has been shown this approach is proper in *particular* cases, but it is distinctly invalid when applied to the economy taken as a whole.

The problem is to ascertain the effects of a general wage rise, not only on marginal costs, but on aggregate demand as well. We may start by agreeing that

[1] It will be recalled that the analysis would be the same in the case where minimum wage legislation prevented a general *cut* in wage rates.

marginal costs will be raised. But if the minimum wage law succeeds in raising the lowest wage rates, the expenditures of wage earners will undoubtedly rise, too. Moreover, assuming *total* income to remain unchanged, a distribution of income from non-wage-earning to wage-earning groups will be effected.

Traditional analysis will hold that this is impossible. Either there would be unemployment, so that those who received the higher rates did so at the expense of the unemployed, or a general improvement in labor productivity is necessary. Higher income groups in either case would lose nothing.

However, there appear to be other possibilities, which are here tentatively offered. If enterprisers feel that effective demand will rise, they may accept a temporary cut in profits in the hope of compensating for the increased wage rates by reducing their contractual costs—interest rates and rent. This is certainly not impossible, for it is the *average* rate of profits, not the rate at any given moment, which is important.

The next question is whether a reduction in interest rates and rent can be effected. Classical theory would reply in the negative. Lower interest rates would cause a shortage of savings, forcing the former up again. However, the level of income would appear to be a much more fundamental determinant of the volume of savings than the rate(s) of interest, and it is seriously to be doubted that a lower rate of interest would, itself, curtail the supply of savings. No decline in the level of income is indicated here; in fact, it will be shown that a rise in the level of income seems to be a more imminent possibility.

In the event that a shift in income from the higher to the lower income groups is effected, however, it seems probable that the former would reduce savings rather than consumption, so that the supply of savings would be reduced from this source. However, it will be shown that the decline from this source may be offset by an increase from other sources, also resulting from the minimum wage legislation.

Of course, any general decline in rent incomes need not cause any concern, for such a decline would in no way affect the supply of land.

As long as enterprisers do not instantaneously reduce employment, and we have posited some reasons why they might not,[2] the shift in income from the higher to the lower income groups will probably raise the community's average propensity to consume, since the latter group has a higher propensity to consume than the former. The rise in aggregate demand will tend to raise the marginal efficiency of capital. The hesitation of the enterprisers is now justified. In fact, production and employment will increase, since only in this way can the increased demand for goods be satisfied.[3] Moreover, if an increase in the total real income of the economy actually results, the end effect might easily be a redis-

[2] Further support of this point may be found in R. A. Lester, "Shortcomings of Marginal Analysis for Wage-Employment Problems," *American Economic Review*, March 1946, pp. 77–79.

[3] The precise extent of the rise in aggregate demand will vary (a) inversely with the degree of the rise in the general price level with the general wage rise, and (b) directly with the range of inequality in the distribution of income and the relative importance of wages to total income.

tribution of the *relative* shares, with very little decline in the *absolute* shares of the other income groups. Savings from this source, therefore, need not fall; in fact, total savings may increase as a result of the rise in the community's level of income.

Opponents of minimum wage legislation have suggested that in the event of a rise in the prices of the products of the affected industries, any rise in the real wages of the workers in these industries would involve also a decline in the real wages of other workers. While the validity of this contention must be recognized, it should also be pointed out that if the rise in the average propensity to consume posited above actually occurs, it may result in increased employment for this latter group.[4] Prices may even fall if this expansion in production makes possible further economies deriving from large scale output.[5]

Account must now be taken of the possible effects of minimum wages on investment. If such legislation succeeds in effecting a general wage rise and thus an increase in aggregate demand, then the ensuing rise in the marginal efficiency of capital should have expansive effects on output and employment.

The importance of an increase in wage rates as a damper on investment is debatable. Labor costs are not the same in all industries. But investment might well fall if enterprisers are reluctant to maintain investments out of the reduced incomes which may result from the general advance in wages, or if their reduced volume of savings causes a rise in interest rates, as the demand for securities is diminished.

From this analysis it would seem that minimum wage laws have a twofold effect: one on aggregate demand and the marginal efficiency of capital, the other on the incomes of enterprisers and the level of interest rates; but the results in the two cases appear to oppose each other. Thus, a general wage rise seems to promote a rise in aggregate demand and the marginal efficiency of capital at the very time it causes a rise in interest rates.

Which of the two divergent effects is more important will determine the effects on employment. It is this writer's opinion that producers are concerned far more with sales potentiality than with interest costs. Recent studies seem to lend support to this belief. The Harvard Graduate School of Business, the Oxford Institute of Statistics, R. A. Lester, and others[6] have made surveys in which businessmen were asked to enumerate the factors which play a decisive role in determining their volume of production. The results uniformly reveal that only a very small number mentioned the interest rate at all, and these indi-

[4] W. M. Brown, "Some Effects of the Minimum Wage on the Economy as a Whole," *American Economic Review*, Sept. 1940, p. 106.

[5] Note should also be taken of the effects of reemployment, etc., on government fiscal policies (expenditures, revenues, and debt management).

[6] Cf. J. F. Ebersole, "The Influence of Interest Rates upon Entrepreneurial Decisions in Business," *Harvard Business Review*, Autumn 1938, pp. 35–39 (see report by same author in *American Economic Review*, March 1938, Supplement, p. 74); J. E. Meade and P. S. Andrews, "Summary of Replies to Questions on Effect of Interest Rates," *Oxford Economic Papers*, No. 1, Oct. 1938, pp. 14–31; R. A. Lester, "Shortcomings of Marginal Analysis for Wage-Employment Problems," *American Economic Review*, March 1946, pp. 64–67.

cated that interest was a minor element in costs. On the other hand, the replies overwhelmingly emphasized the state of *effective demand*, both current and prospective, as the determining factor in establishing the volume of investment.[7]

II

In the preceding section the main emphasis was upon the effects of minimum wage laws on aggregate demand, and thus on production and employment. In this section the emphasis will shift to an examination of the impact of minimum wages on production costs. Of necessity, however, there will be some overlapping with Section I. The investigation will continue on the premise that such legislation will either raise wage rates or prevent their being lowered.

Traditional analysis, proceeding on the assumption of *pure* competition, has concluded that a minimum wage will raise costs of production. Since producers are obliged to equate marginal costs with prices, *they raise prices* and curtail production and employment to the point where the new marginal cost curve intersects the price line.

As has been repeatedly emphasized, this very simple conclusion, however, seems far from complete and lacks conviction on that account. It behooves us to develop a somewhat more thorough analysis. Four tentative explanations are offered.

(1) The traditional conceptions of the marginal cost and marginal revenue curves are not accurate, and, as already indicated, the influence of minimum wages on total effective demand has been ignored.

As was pointed out earlier, the conclusions of classical analysis, with reference to the effects of a general minimum wage law on the level of employment, were arrived at, in part, through a failure to take account of the effects of such legislation on aggregate demand.

Moreover, recent inquiries undertaken by Professor R. A. Lester and others reveal that the vast majority of manufacturers consider their concerns "to be operating at decreasing unit variable costs all along the scale between 70 and 100 per cent of plant capacity."[8] The fact that so large a number of producers appear to be operating somewhere along the *declining* portion of their marginal cost curves seems contradictory to current economic analysis.

In view of the replies of businessmen concerning their variable costs, the validity of the traditional *U-shaped* marginal cost curves may be questioned. The

[7] Even in the area of very long term investment, such as public utilities and housing, the significance of the interest rate has been questioned. The uncertainty inherent in long investment periods tends to obfuscate closely calculated profit margins founded on money costs. Cf. J. R. Hicks, *Value and Capital*, pp. 225–226.

[8] Cf. Lester, *op. cit.*, p. 81. The Oxford economists in a similar series of inquiries obtained analogous results. Cf. R. L. Hall and C. J. Hitch, "Price Theory and Business Behavior," *Oxford Economic Papers*, No. 2, May 1939, p. 20, footnote 1. Admittedly, the samples of each of these studies were small (58 firms in Lester's and 38 in the Oxford group's) but when one considers the variety of industries which were included, together with the uniformity of the replies, it is impossible to ignore their implications. For additional references, cf. Lester, *op. cit.*, pp. 67 and 68, footnotes 11 and 12.

apparent tendency of so many firms to have declining marginal costs up to "70 to 100 per cent of capacity" indicates that the usual marginal cost curves may have fallen too sharply or risen too soon.

Furthermore, exponents of the theory of monopolistic competition[9] have emphasized that the demand curve of the firm in this condition is only slightly negative in slope.[10] However, to have an elasticity of less than one (and this is the only degree of elasticity which would produce differentiation and make price manipulations worth while[11]), the demand curves must be sloped much more steeply than they seem to have been heretofore.[12] It is obvious that the more

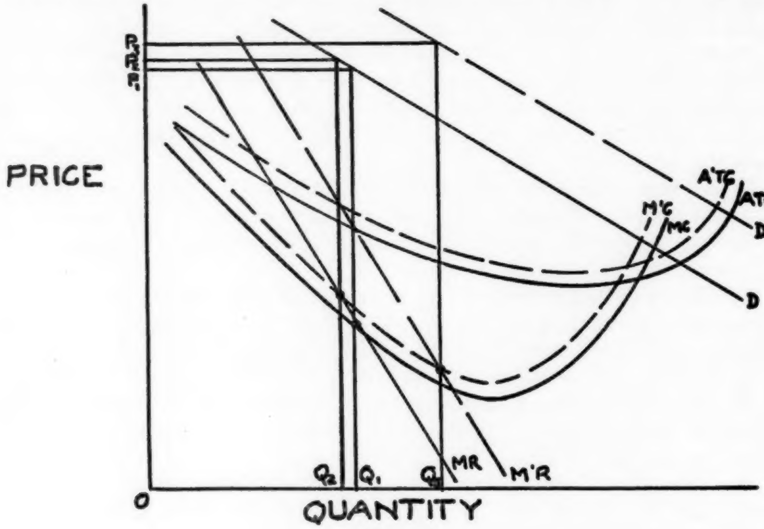

FIGURE 1

negative the slope of the demand curve, the more sharply does the marginal revenue curve fall away from the demand curve from which it is derived. Consider a diagram which makes an adjustment for these criticisms.

Examination of Figure 1 reveals a marginal cost curve (MC) which declines

[9] The term "monopolistic competition" in this paper will include *both* oligopoly and product differentiation, for it is the writer's firm conviction that they go together in most cases. In this event, oligopoly permits a larger degree of price manipulation and profits (long run) than would prevail if product differentiation existed alone.

[10] This, of course, is to indicate the relatively small area in which price can be manipulated, compared to that of the monopolist.

[11] There would be no inducement to differentiate a product if a slightly higher price could not be obtained, and it could not if the resultant demand did not have an elasticity of less than unity. This higher price and the resulting profits can be maintained, because of lack of free entry into most modern industries (see footnote 15 and pp. 28, *infra.*).

[12] For a mathematical affirmation of this point, cf. Alfred Marshall, *Principles of Economics*, 8th ed., Mathematical Appendix, pp. 839–840.

over a significant area of production. The marginal revenue curve has also been given a much sharper slope than is usually accorded it in diagrams of monopolistic competition. With these two details before us, let us examine the effects of the minimum wage legislation.

Classical theory has usually held that a minimum wage will raise costs of production. Because producers are obliged to equate marginal costs with marginal receipts, they must, under the new conditions, either raise their prices (which would cause demand and thus output to fall off) or else curtail production to the point where the new marginal cost curve intersects the marginal receipts curve (which would also result in a higher price, so the effect on employment is the same in both cases). On Figure 1, this adjustment is pictured by a cut in output from OQ_1 to OQ_2; implicit is the reduction in employment.

But, as was emphasized earlier, this analysis ignores the rises in effective demand which are bound to ensue. A general increase in wage rates does not merely raise marginal costs. If a particular product has an *income elasticity*[13] of greater than unity, marginal revenue would also increase as a result of the shift in income from the higher to the lower income groups. For the low income groups (who would be the ones most affected by the minimum wage law) *most* products probably do have an income elasticity of greater than unity. Now if the increase in marginal revenue is at all greater than the increase in marginal costs, and there is every reason to believe this is so, output will increase, and, of course, if the marginal cost curve is declining over a significant area of production, this slightly greater rise in marginal revenue will have a highly expansive effect on employment. Figure 1 illustrates these effects. Note the great increase in output (and employment) from OQ_1 to OQ_3 when cognizance is taken of the rise in marginal revenue and the extended downward slope of the marginal costs.

The significance of the marginal cost curve drawn in Figure I is emphasized by comparing it with a more traditional U-shaped marginal cost curve drawn in Figure 2.

With the exception of the shape of the marginal cost curve, everything in Figure 2 is the same as Figure 1, including the shifts in the positions of the various curves. Observe how much smaller is the expansive effect of the rise in aggregate demand when the marginal cost curve is U-shaped.

But the variation in the effects on output and prices is not the only important result of the differences in the slope given the marginal cost curve in Figures 1 and 2. In *all* cases, examination of both figures reveals, some rise in price occurs. This is true whether output and employment are curtailed or expanded. In all cases, then, *real* wages are reduced more or less. If the classical analysis is followed, not only is the level of employment lower, but those, if any, who do get higher wages have the purchasing power of these reduced somewhat by the higher prices. If we allow for the expansive effects of the rise in aggregate demand, a rise in prices still occurs, which may or may not wipe out the effects of the higher

[13] By income elasticity is meant the degree to which the demand for a given commodity changes in response, not to a price change, but a change in the incomes of the buyers.

money wages.[14] Note, however, how much *greater* is the price rise when a U-shaped marginal cost is involved (Fig. 2—OP_1 to OP_3) than the cases where this curve declines on a significant area of production (Fig. 1—OP_1 to OP_3).

If the studies of Professor Lester and the others in connection with the slope of the marginal cost curves are characteristic of most industries, it is extremely unlikely that a rise in wage rates, effected by a minimum wage law, will be followed by anything like a proportionate rise in prices.

Thus by a slight alteration in the slopes of the two curves—marginal costs and marginal revenue—to make them fit certain observed facts, and by taking

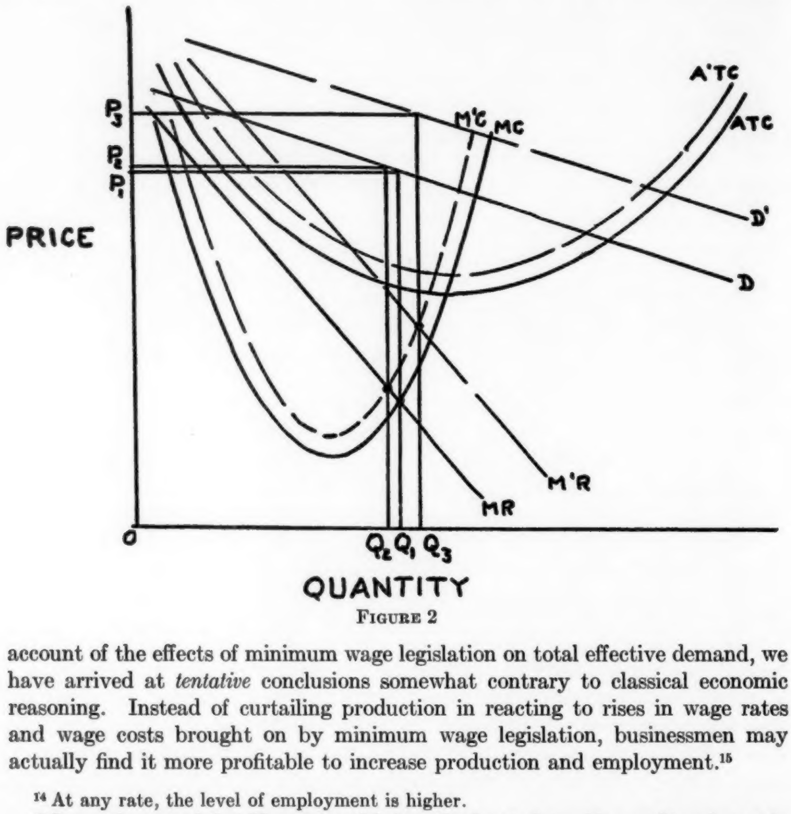

FIGURE 2

account of the effects of minimum wage legislation on total effective demand, we have arrived at *tentative* conclusions somewhat contrary to classical economic reasoning. Instead of curtailing production in reacting to rises in wage rates and wage costs brought on by minimum wage legislation, businessmen may actually find it more profitable to increase production and employment.[15]

[14] At any rate, the level of employment is higher.

[15] It may be argued that Figures 1 and 2 show the firm to be making profits, whereas in the long run the average total cost (ATC) curve would be tangent to the demand curve (D). If this were the case, expanded production would mean the product would have to be sold for less than the costs of production, since past the point of tangency the average total cost curve would lie above the demand curve. Such an argument is valid, however, only on the assumption of freedom of entry. The validity of this assumption must be questioned on the grounds that the capital requirements of modern industrial technology make ideas of freedom of entry a figment of the imagination.

(2) Producers may conceive of 100 per cent of capacity to be at a point to the left of the lowest point on the traditional U-shaped marginal cost curve.[16] On Figure 3, this would mean a level of output somewhere around the quantity OQ_1.

It will be argued that such a contention is palpably absurd, since it is obvious that profits are to be maximized at the level of production OQ_2, where marginal costs and marginal receipts are equated. The reply to this contention brings us to the third possible explanation which may make theoretical analyses of minimum wage laws more complete.

(3) Economic theory may be imputing too much perspicuity to businessmen with reference to their ability to ascertain marginal receipts and marginal costs.

The Oxford group found that a large proportion of the businessmen questioned had very little conception of either marginal revenue or marginal costs. In order

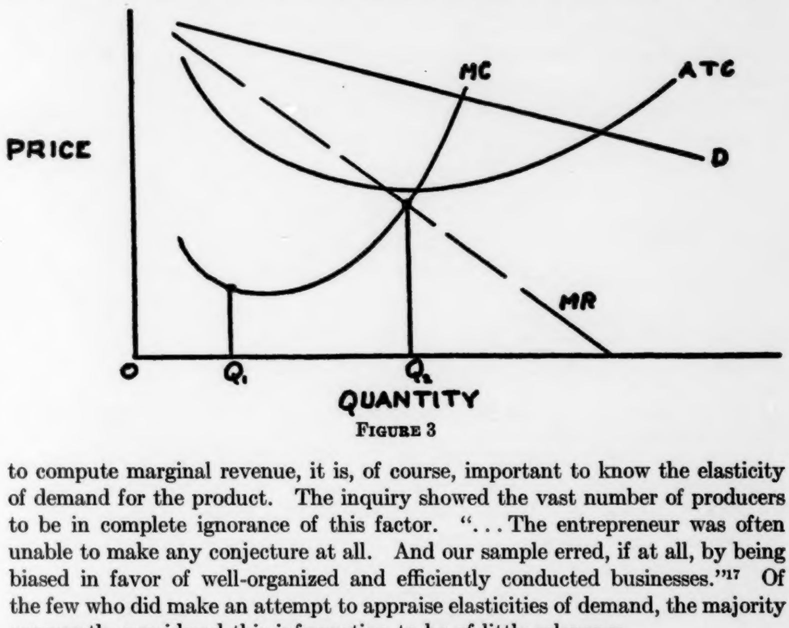

FIGURE 3

to compute marginal revenue, it is, of course, important to know the elasticity of demand for the product. The inquiry showed the vast number of producers to be in complete ignorance of this factor. "... The entrepreneur was often unable to make any conjecture at all. And our sample erred, if at all, by being biased in favor of well-organized and efficiently conducted businesses."[17] Of the few who did make an attempt to appraise elasticities of demand, the majority apparently considered this information to be of little relevance.

The survey showed further that entrepreneurs were in "profound ignorance" concerning costs. "... Even entrepreneurs who were prepared to cut prices to the minimum level which covered prime costs were often unsure about the precise value of this; ..."[18] "The same difficulties stand in the way of discriminating

[16] Some empirical support to this statement may be garnered from W. L. Thorp, "The Problem of Overcapacity," in *Economic Essays in Honor of Wesley Clair Mitchell*, pp. 483–88.

[17] R. F. Harrod, "Price Cost and Entrepreneurs' Policy," *Oxford Economic Papers*, No. 2, May 1939, p. 4.

[18] *Loc. cit.*

marginal from average prime costs."[19] "In most cases . . . this uncertainty was due not to any negligence or lack of zeal for knowledge on their part but to the nature of the case."[20]

Thus, the possibility that businessmen may operate to a considerable extent at a level of production in which marginal costs (even on a U-shaped MC curve) are still falling may not be as unreasonable as it first sounded. If enterprisers are in such complete darkness concerning the status of marginal costs and marginal receipts, there is no reason why this possibility cannot become a reality.

(4) The above argument is further supported by another finding of the Oxford economists. Perhaps the most significant result of the survey was that firms do not aim at maximization of profits by equating marginal costs and marginal receipts. Instead they follow a policy of "full cost." That is, they establish a price which covers prime cost per unit of product, plus an allowance which is made for overhead costs and a further addition, of about 10 per cent, for profit.[21] Any maximization of profits accruing from this policy appears to be an accidental byproduct.

Furthermore, examination of cost accounting procedure reveals that sole emphasis in cost accounting is upon *unit* costs. There is virtually no recognition of the concept of marginal costs.[22]

These two facts—adoption of the "full cost" principle, regardless of maximization of profits, plus the stress given unit costs in cost accounting—lead to a fourth possible explanation needed to bolster classical analysis. That is, that businessmen may aim not at maximization of total profits, but at maximization of *unit* profits.

For the sake of argument, let us assume, with orthodox theory, that a minimum

[19] Harrod, *op. cit., p. 4.*

[20] *Op. cit.*, p. 5. It has been suggested that if producers come anywhere near to maximizing their profits by trial and error, the results will accord approximately with theory, regardless of whether they can compute their marginal costs and marginal receipts. The answer to this point, the "full cost" principle, is to be found under point (4).

[21] This method seems to be fundamentally similar to pricing techniques apparently employed by many large manufacturing firms in the United States, which the present writer has had occasion to investigate. For an interesting diagrammatic evaluation of the results of this policy, cf. R. L. Hall and C. J. Hitch, "Price Theory and Business Behavior," *Oxford Economic Papers*, No. 2, May 1939, pp. 23–24.

[22] Professor Machlup takes exception to the view that the use of unit costs as a basis for business decisions destroys the validity of the marginal analysis. His argument essentially is that, in the end, the businessman is guided by the expected profitability of any additional production, regardless of the system of accounting he employs, and therefore, since profitability does in fact depend on the relation of marginal receipts and marginal costs, the comparison of the margins is implicit in his decisions. This argument would be convincing if Professor Machlup could prove that the businessman *in fact* is not misled by his faulty accounting practices, but he presents no evidence to that effect. Rather he appears to assume it. This assumption may be questioned. It is at least possible that the accounting practices in use do mislead the businessman in such a way as to prevent the maximization of his profits. The above analysis is based on the assumption that this is the case. Cf. Fritz Machlup, "Marginal Analysis and Empirical Research," *American Economic Review*, Sept. 1946, pp. 539–42.

wage law effects a rise in wage costs which cannot be offset by expanding production along a still declining marginal cost curve, in the manner indicated above. In such a case, orthodox theory has held, capital would be substituted for labor because labor has become relatively more expensive. The importance of this possibility must rest upon the elasticity of substitution of capital for labor. The ability to substitute has hitherto been an assumed fact.

In the first place,[23] the very existence of unused plant capacity might be taken as *prima facie* evidence against the possibility of easily substituting equipment for labor, for the use of unused capital equipment involves virtually no cost, the fixed charges against the equipment having to be met under any circumstances. Being thus a free good in the short run, it would already have been used as far as possible.

Moreover, most industrial plants are designed and equipped for a certain output, and they require a given work force. According to Lester, in many industries, e.g., "those characterized by automatic machine tending, like pulp and paper plants, metal and oil refineries, chemical plants, textile mills, etc.,"[24] and those carried on by assembly line operations, the working force is largely fixed. He says this is also true of "service lines, like banks, rails and bus transportation, theatres, postal delivery, etc."[25] Even when time is permitted for changing plant proportions, however, we find that the "flexibility of many plants is . . . extremely limited, especially those designed for early stages of manufacturing, such as smelting, refining, compounding, and rolling of materials."[26] However, this limited flexibility in the substitution of capital for labor is by no means confined to the basic industries. A TNEC study reveals that this is true of many industries at advanced stages of production.[27] If these observations are correct, then the supposed substitution of labor for equipment may be impossible of accomplishment, at least in the short run.

The principle of substitution also overlooks certain technical limitations which restrict the degree of substitutability. It is well known, of course, that machines and their parts do not all wear out at once. Consequently, replacement of parts must often be continued, in spite of the possibility of the introduction of more efficient, less costly processes, until a sufficiently large part of the whole piece of equipment depreciates enough to warrant scrapping. To do otherwise is to risk

[23] The following discussion is based upon a similar one in the article of R. A. Lester's referred to above (cf. pp. 72–75). A similar, though less complete, discussion is to be found in D. H. Robertson's *Economic Fragments*, pp. 50–51.

[24] *Ibid.*, p. 72, footnote 27.

[25] *Loc. cit.*

[26] *Ibid.*, p. 73.

[27] Cf. *Industrial Wage Rates, Labor Costs and Price Policies*, TNEC monog. No. 5, (1940), pp. XXV, 25, 42, 53, and 136. In most cases it was found that technological change was a matter of *constant* effort to reduce costs and improve quality. There was no evidence that sharp increases in wage rates instituted a wave of technological advances. Of course, these studies seem to have been primarily short run in nature. Over a longer period, wage rates in many circumstances undoubtedly exert a more substantial influence on the rate of technological change.

the possibility of large losses on sunk capital.[28] Under these circumstances, changes in wage rates might have to be large enough to offset losses accruing from the abandonment of sunk investments, not to mention the costliness of readapting existing facilities and organization, etc.

There is yet another, and probably more forceful, reason for questioning the validity of the principle of substitution. It is that wage costs may constitute too small a portion of total costs to have the assumed result. Yet those who would speak of a significant degree of elasticity of substitution of capital for labor seem to have forgotten this important fact.

Let us take a hypothetical case, examining the effects of a wage increase on the installation of new equipment. Suppose a worker to be operating a general purpose lathe and turning out 20 units of product per hour. He is paid at the rate of $1.00 per hour. Thus labor costs on this lathe are $.05 per unit of product. This general purpose lathe has a capital value of $500. Labor costs for an assumed annual product of 20,000 units would be $1,000. We may assume the total annual capital costs to amount to $200. But these latter costs may be ignored, inasmuch as they represent a sunk investment. Hence for this lathe, already in use, the total annual costs should be computed at $1,000, i.e., for our purposes they should include only variable costs.

Now suppose purchase is contemplated of a *new* special purpose lathe costing $2,000. This new machine may be taken to be 2½ times as productive as the present lathe. The annual capital charges on this lathe may be reckoned at $800, exclusive of charges for obsolescence; labor costs are $400 (for the same annual output), so that total costs are again $1200.

At the present level of wages, there would certainly be no inducement to use the new lathe, involving an additional investment of $1500. Now let wage costs increase 10 per cent. Capital costs remaining unchanged in both cases, labor costs rise to $1100 with the old lathe and to $440 with the new lathe. A saving on total costs of $60 per annum would then be effected by installing the special purpose lathe.

Businessmen in general desire to recover their capital investments in machinery which is in danger of obsolescence (and most machinery is) in from 1 to 5 years. In our illustration, the $60 annual saving would hardly constitute an inducement to invest $1500 in a new lathe, despite the 10 per cent increase in wage costs. Under the assumed conditions, not even a 30 per cent increase in wage costs would be sufficient to warrant the capital outlay of $1500. At the very least, i.e., allowing for a five-year period in which to recoup the original capital outlay, a 50 per cent increase in labor costs in the above example would be necessary as an inducement to invest in the new machinery. It is hardly to be expected that a minimum wage law would precipitate such an increase in wage costs. Furthermore, when it is recalled that in many industries the ratio of labor to total costs is some 20 per cent to 25 per cent, a much greater increase in wage *rates* than 50 per cent would be necessary in the hypothesized example.

[28] This phenomenon explains the apparent paradox of corporations' spending tremendous sums of money on research, only to shelve new developments for extended periods of time.

This example is probably very nearly representative of most machine-using industries. And the assumed increase in efficiency as a result of the new lathe should not be thought of as too small. Too many people have a tendency to think of technological advances in terms of grandiose innovations, when in actual experience, such progress is usually a series of *continuous*, *small* changes. As a matter of fact, it is this very characteristic of continuity that causes businessmen to desire to recover their initial capital outlays for new machinery in the comparatively short period indicated above. It is the fear that some small change may cause a newly purchased machine to become obsolete before the returns have been fully realized.

In view of the foregoing, the argument that minimum wage laws will cause unemployment through the displacement of labor by machinery is decidedly weakened, although it is not completely invalidated.

Opponents of minimum wage legislation have often argued that such laws serve only to interfere with the competitive forces at work in the labor market, implying the existence of a *free* labor market. These, however, are few in number. Most writers have recognized the existence of certain factors which limit the degree of competition. Led by Professor Pigou, these men have pointed out such obstacles as the power of tradition, public opinion, and state interference. But it will be observed that these elements manifest themselves only on the *supply* side of the labor market. Almost completely neglected have been certain obstacles on the *demand* side. The most obvious of the obstacles is the condition of oligopsony that prevails through most the labor market. Such a condition is the resultant of two factors *inherent* in modern production technology. The first is the lack of free entry deriving from the tremendous capital requirements necessary for the establishment of modern industrial plants. The second is the absence of a need for a large number of producers in most industries, a comparatively small number of plants being sufficient to supply the demand for most manufactures.

In such a situation lies fertile ground for an absence of wage competition among producers. Since each producer is aware that any raising of wage rates on his part may result in his competitors' following suit, he will refrain from raising wages. This fear of destructive retaliation may easily result in the setting of wage rates below the value of the marginal product without any ensuing competition among employers pushing the wage up to the point where it equals the value of the marginal product. In towns dominated by a very large firm, the wage may be set by this firm, the financially weaker being compelled to follow in line. This is apparently the case in the mill towns of the South and other parts of the United States. It is obvious that little competition prevails in many local markets. Nor is there sufficient mobility of labor to permit competition among firms in different localities. Furthermore, in many cases, movement would merely mean going from one oligopsonistic area to another.

So far we have (naïvely, perhaps) omitted from consideration the possibility of any real collusion among employers. But if Gary dinners could fix prices, it requires no vivid imagination to visualize similar meetings to fix wages. The La

Follette Subcommittee of the U. S. Senate found that the personnel men of a number of large corporations were in the habit of meeting once a month at the Rockefeller Center in New York City to discuss, among other things, the going rate for unskilled labor. As one writer has suggested, only a small twist of the conversation is necessary to turn the discussion from what the prevailing wages are to that of determining what they should be.

As has been suggested, one assumption necessary to the concept of *pure* competition in the labor market is that there will be a large enough number of buyers of labor so that any increase or decrease in the demand of one buyer will have absolutely no effect on the price of labor. In view of the present scale of concentration of production, however, it should be obvious that such a state of affairs simply does not exist.[29]

In the absence of pure competition, then, it is necessary for most firms to raise their wage rates in order to attract additional workers. Because, under most conditions, it is extremely difficult to discriminate between old and new employees, a large firm will also find it necessary to raise the wages of those already employed. From this it follows that the marginal costs of hiring more laborers would actually exceed the wage paid to the new workers.

Let us take a hypothetical illustration. Table 1 gives the appropriate cost and revenue figures for a firm buying oligopsonistically on the labor market.[30] (For simplicity's sake, we may assume the firm to be selling *competitively*.) In this case it is supposed that the employer must raise his wage rate by \$10 each time he desires to hire an additional worker. But a comparison of columns (2) and (3) of Table 1 will indicate that he must extend his wage increase to all his workers; as a result, his marginal labor costs rise at a faster rate than the wages he must pay to get extra workers. Figure 4 illustrates these divergent rates of increase diagrammatically. The MC curve is the curve of marginal costs, the AW curve represents the actual wages paid the *new workers*, while the MPV curve delineates the movement of marginal product value. Under these circumstances, the level of employment, 9 workers, is given by the intersection of the MC and MPV curves at point R (since this is the point of most profitable use of labor by the enterpriser). The addition of the tenth worker causes the marginal costs to exceed the marginal product value of the tenth worker.

For our purposes it should be noted that this producer, in maximizing his profits, is curtailing employment and paying lower wages than he would under competitive conditions in the labor market.[31] Table 1 shows that the employment of the tenth worker would entail a *wage* of \$140, while the value of the marginal product would be \$201. The reason that this marginal worker is not employed, as already indicated, is that the marginal costs are higher than the wage of this extra worker.

Thus it becomes apparent that an oligopsonistic buyer, bidding for a labor

[29] We are assuming the absence of labor unions. It will be seen that unions may have the same effect as minimum wage laws.

[30] It should be noted that this analysis is in terms of costs and revenues per unit of *input*, as contrasted with the more familiar analysis in terms of output.

[31] Under competitive conditions, each enterpriser hires labor to the point where the wage equals the value of the marginal product.

TABLE I

Costs and Revenues of a Firm Buying Oligopsonistically in the Labor Market and Selling Competitively in the Product Market

(1) INPUTS (LABOR)	(2) PRICE PER UNIT OF INPUT (AVERAGE WAGE)	(3) TOTAL LABOR COST	(4)[a] MARG. LABOR COST	(5) TOTAL PROD.	(6) MARG. PROD.	(7) UNIT SALES PRICE	(8)[b] TOTAL VALUE PROD.	(9) MARG. VALUE PROD.
1	$50	$50		70	70	$1.50	$105.00	$105.00
2	60	120	$70	220	150	1.50	330.00	225.00
3	70	210	90	625	405	1.50	937.50	607.50
4	80	320	110	1148	523	1.50	1722.00	784.50
5	90	450	130	1788	640	1.50	2682.00	960.00
6	100	600	150	2363	575	1.50	3544.50	862.50
7	110	770	170	2843	480	1.50	4264.50	720.00
8	120	960	190	3191	348	1.50	4786.50	522.00
9	130	1170	210	3421	230	1.50	5131.50	345.00
10	140	1400	230	3555	134	1.50	5332.50	201.00
11	150	1650	250	3638	83	1.50	5357.00	24.50

[a] Column (4) is not a simple marginal cost column (i.e., marginal cost per unit of *output*). Instead, this column is a statement of marginal cost per unit of *input*. The MC curve in Figure 4 is a graphic representation of this column.

[b] Similarly, column (8) is not a simple marginal revenue column (i.e., marginal revenue per unit of output). It is rather a statement of the value of the marginal product per unit of *input*. The MPV curve in Figure 4 is the graphic representation of this column.

FIGURE 4

supply that is offered under competitive conditions, can force a reduction in wages below the marginal product value of the workers—the competitive wage level—merely by restricting his employment, and he profits by so doing.

If a minimum wage is legally set at a level above that at which the employer was previously hiring labor oligopsonistically, this will result in raising both the wage and the number of workers hired. For the supply of labor of the employer now becomes infinitely elastic (since he must pay the same wage to any number of workers). In order to maximize his returns, he hires labor until the marginal cost (which in this case equals the wage) equals the marginal product value. Under the conditions stated, this will be beyond the point (in terms of workers hired) of his previous equilibrium. This is illustrated in Figure 4 by the curve MC′AW′. The MC and AW curves are now identical. As indicated, the minimum wage has been set at a level above the average wage paid previous to the legislation, i.e., \$130. The minimum wage is now \$140 and employment has actually *increased* from 9 to 10 workers, as the producer is maximizing his profits by equating his marginal costs (MC′) with his marginal product value.[32]

Thus, once again, we have come to conclusions completely opposed to those reached under the rather unrealistic assumption of pure competition. It is the writer's opinion that most of the labor market is characterized by an oligopsonistic or monopsonistic (the effects are the same in both cases) demand situation. If this is so, the foregoing analysis would seem to provide a more accurate description of the course of events following upon minimum wage legislation than those analyses premised on the condition of a competitive market.

III

The foregoing analyses represent attempts to hypothesize certain situations wherein minimum wage legislation need not reduce the level of employment, even in the absence of fortuitous offsetting circumstances. In view of the experience with minimum wage laws both here and abroad, together with the theoretical hypotheses which may be adduced to explain this experience, there seems to be some reason for believing that these laws have in some instances *not* resulted in unemployment, at least to any significant degree.

The important thing, however, is to see that such simple conclusions (i.e., unemployment is the inevitable concomitant of minimum wage laws) are clearly not warranted. Cognizance must be taken, among other things, of the relative effects of such regulations on demand and investment, the ratio of labor to total costs, the shape and slopes of the marginal cost and marginal revenue curves, the state of the labor market, etc. The state of all these factors and their comparative importance may result in a decline in the level of employment, in a stabilized level, or in a rise—all in the face of minimum wage laws. To take the easy way out and conclude, on the basis of a few simple and possibly unrealistic assumptions, that minimum wage laws can serve only to reduce the volume of employment is to exhibit a degree of naïveté and lack of perspicuity unbecoming to the professional economist.

[32] If the minimum wage had been as high as the original cost, \$210, there would have been no reduction in employment, and the income of the force would have been much greater.

COMMUNICATIONS

Mr. Ross on Wage Policy

The meaning of Mr. Ross' comments on "What is Responsible Wage Policy"[1] is not entirely clear, despite the simple and confident way in which they are expressed, and even though he tells us at the outset that "the central argument of this article is that only under certain rigid assumptions can union and employer representatives be held reasonably accountable for the volume of employment resulting from their wage decisions."[2]

One possible reason Mr. Ross feels this way may be that he can see no reason why employers (presumably interested in profits) and union leaders (possibly interested in keeping their offices) ought morally to be interested in the employment and output effects of their actions. No one else bothers about the good of the economy while pursuing their selfish ends and so why should employers and union leaders be singled out for the delivery of a sermon? All of this is perfectly true and equally obvious.[3]

Mr. Ross argues explicitly that employment effects cannot be considered because they are unpredictable.[4] Of course they are unpredictable. Philosophical humorists are always telling one that nothing in life is certain except death and taxes. In economic affairs there are only probabilities, tendencies, and possibilities. Nobody would ever act if he waited for the situation to become predictable. Actually, when a union leader demands a higher wage rate, he presumably has definite expectations; as for example, employment will not be so curtailed that members' incomes are reduced. His inability to predict the exact income effect does not prevent him from demanding higher wage rates.[5] Moreover, the importance of a human goal has never depended upon the ease or difficulty of predicting one's progress towards it. Married happiness is commonly considered a proper human goal, but few of us are so naïve as to believe that the prospects

[1] This Journal, January 1948, p. 266. The subject which Mr. Ross discussed is so important, and his remarks about economists so barbed, that these somewhat tardy observations seem necessary in view of the lack of other reactions.

[2] *Op. cit.*, p. 267.

[3] However, when a special interest group acquires power, and incidentally uses it against the general welfare, it may be necessary for the community, through its governments, to prevent the harmful use of such private strength. It is because we do not expect monopolies to act in the public interest that certain laws are today upon the statute books and are from time to time enforced. The only reason that certain monopolies of labor are sometimes treated as though they were different economic problems may be that they constitute a very different political problem. On the other hand, what is not politically possible at one time may be politically expedient at another. Hence, although there may be no moral reason why the public should expect collective bargainers to consider the employment effects of their agreements, there may be occasions when their own self interest indirectly requires that they do.

[4] *Op. cit.*, p. 270.

[5] As a matter of fact, he cannot have expectations regarding the income effect without at least implicitly having notions about the employment effect!

of the bride and groom in this regard can be predicted as they stand at the altar steps. The economic importance of the employment effect of wage agreements is not lessened because it can only be vaguely foreseen.

Mr. Ross states unequivocally that the union cannot be expected to consider the employment effect of wage rates because "the inevitable conclusion is that the lower the wage in the collective agreement, the more likely it is that employment will be higher in the firm."[6] He also points out that a typical wage bargain in the United States covers only a minor fragment of the economy (which is well known), that consequently we must use the methods of particular equilibrium analysis (which is true but proves unfortunate for his argument), and that the income effect of a particular wage agreement is insignificant relative to that of the national economy (which is also true but not necessarily relevant).[7] The argument seems to be that, because of the fragmentary coverage of individual wage agreements, an employer will only hire more workers at a lower wage. Such a conclusion is impossible unless it is assumed that the supply of a particular kind of labor to a particular firm in a particular area only exists at a very much lower reservation price. Mr. Ross, and quite rightly, does not seem to make this assumption. In most particular labor markets, especially during periods of fairly full employment such as we are now experiencing, there is some wage, whether predictable or not, which will provide the most employment and probably the most output. A lower wage than this will reduce employment, despite the employer's desire to employ more, because the former supply of labor will not be forthcoming. Workers do have alternatives; and the more "particular" is the equilibrium analysis, the more alterntatives they have. It is not so long ago that crucial war industries were requesting wage rate increases from the War Labor Board so that they could increase employment in their plants.

Mr. Ross might logically argue, up to a point, that lower wages will increase employment because the collectively negotiated wage rates of today, considered firm by firm, are considerably above the free equilibrium rates which would equate the demand and supply of labor, considered by types and in the market sense. In those cases where this is so two questions immediately suggest themselves. By what means, legal or illegal, moral or immoral, beneficial or harmful to the economy, did these particular unions manage to acquire such superior bargaining power, as compared with that of the employers and unorganized workers, that they were able to push wage rates to such a level? Would it not be better, in some general economic welfare sense, to accept the employment of some of the workers now excluded from these high wage rate jobs by the pay level? Actually it does not appear that Mr. Ross is basing his arguments on these rather special cases, although of course he may have had them in mind; and if he had, he would presumably have answered these questions.

One of the essential differences between "theoretical" economists[8] and Mr.

[6] *Op. cit.*, p. 283.

[7] *Op. cit.*, pp. 269, 270.

[8] The adjective "theoretical" is an epithet used by some people to denote an economist who has had the benefit of systematic training in his profession.

Ross is probably that the economists assume a supply curve of labor in particular analysis while Mr. Ross does not. Perhaps this is another example of their "same classical error of failing to test assumptions against reality."[9] It should be possible to form a reasonable opinion in individual cases as to whether a reduction in wage rates, undertaken by one employer, would divert labor to other jobs.[10]

The wider question which seems to lie beneath the surface is whether economic theory can contribute anything to wage policy. The successive approximations of theory often yield inexact conclusions, but this may still be better than *ad hoc* theorizing to prove a series of minor points. Mr. Ross uses theory in small ways while deriding its larger uses. Theory affords a framework, without which one is left with little more than comment.

Santa Monica, California STEPHEN ENKE

Mr. Floyd on Mississippi Corporate Fees and Taxes

Attention is called to certain points in the review by Mr. Joe S. Floyd, Jr., of my booklet, *Mississippi Corporate Fees and Taxes*, which appeared in your July 1948 issue.

It seems that the most significant aspect of chapters I and II were skipped over, but perhaps they were not sufficiently italicized by the author. Chapter II was intended to emphasize the suitability of the corporation, over the other legal forms of business enterprise, to the particular needs of an industrializing area such as the Southeast. Thus, the discussion of the legal forms was intended as a means to an end, not an end in itself. I believe that a rechecking of these chapters, especially the latter, will clarify this point.

The reviewer states that "the author discusses organization fees, franchise, income and annual report taxes." It was one of the special purposes of this booklet, however, to emphasize filing and recording fees levied upon incorporation, amendment, merger, and dissolution, as well as to discuss the more familiar organization fees, franchise, income and annual report taxes. Filing and recording fees mark, in the writer's opinion, important steps in the life cycle of a corporation, and also represent phases of corporate existence about which businessmen and potential incorporators are scantily informed. These various fees are not mentioned in the review unless perhaps they are tacitly lumped together with organization fees and annual report taxes and referred to lightly as "miscellaneous fees and taxes." It is my feeling that filing and recording fees and organization fees, conditioning incorporation as they do, should hardly be referred to

[9] *Op. cit.*, p. 266. They are also guilty of occasionally beating "an orderly retreat into the realm of the uncontestable . . . by strategic enlargement of definition" (*op. cit.*, p. 281) and of having equipped themselves "with a battery of functions" (*op. cit.*, p. 266). They are clearly scoundrels of a most complicated sort.

[10] One wonders in what cases and ways has Mr. Ross avoided this "same classical error" by testing his assumption that individual firms are not confronted by a labor supply schedule.

lightly as "miscellaneous" merely because franchise and income taxes are generally in the forefront.

In the reviewer's opinion the treatment of franchise and income taxes was "superficial" because "the possibilities of alternative bases in the case of franchise taxes," and the failure "to note the considerable differences in the concept of 'net income' among the various states" were neglected. It is not clear to the writer just how additional discussion of franchise bases would have furthered the apparent purpose of merely showing the effect of the various state rates upon a constant $100,000 tax base. The writer felt it sufficient to mention in referring to franchise taxes on page 36 that "wide variation may exist among the states in their *actual* tax bases." Further emphasis is placed upon the difference between our hypothetical situation and the actual situation where the writer states that "to place the corporation on a comparable base in each of the states, various assumptions are made. . . . Thus, all possible variations in the base have been assumed away. While this represents an over-simplified situation, it establishes a springboard for analyzing the more complex realistic situations." One familiar with methodology in economic theory will recognize this as a *modus operandi*. As far as a note on the concept of net income is concerned, reference is made to the writer's statement that "net income, like capital stock in the case of franchise taxes, has more than one meaning for tax purposes" (p. 42). And "the reader should also be reminded that some variations exist among the states in their allowances for expenses and deductions, in arriving at the net income figure" (p. 43).

In conclusion, the writer would like to remark that, while neither funds nor time were available for intensive study of statutes and court rulings relative to franchise and income taxes, neither would such analysis have contributed greatly to the basic objective, running through this analysis, of stimulating interest in domestic incorporation by presenting, for the potential organizer of a medium-sized concern, a simple case for incorporation in this area.

University of Mississippi L. K. BRANDT

BOOK REVIEWS

Grundlagen der Theoretischen Volkwirtschaftslehre. By Heinrich von Stackelberg. Berne: Francke, 1948. Pp. xvi, 368. Paper, s.fr. 19.50; cloth, s.fr 23.50.

Most American students of economics have known Heinrich von Stackelberg only from a few citations in works on monopolistic competition referring to his book *Marktform und Gleichgewicht* (1934). Specialists in economic theory may have known also his earlier book *Grundlagen einer reinen Kostentheorie* (1932). During the war Stackelberg wrote a more comprehensive work on economic theory. It appeared in 1943 under the title *Grundzüge der theoretischen Volkswirtschaftslehre* (Outlines of Economic Theory). In an Allied air attack on Stuttgart bombs destroyed almost the entire edition of the book. In 1944 Stackelberg went to the University of Madrid as visiting professor. There he completed an enlarged edition of the text. It appeared first in a Spanish translation in 1946. In the same year Stackelberg died, after long illness, at the age of 41. Professor Valentin F. Wagner of the University of Basle, acting as editor, presents now the German edition of the enlarged work entitled *Grundlagen der theoretischen Volkswirtschaftslehre* (Foundations of Economic Theory). In his preface Wagner describes Stackelberg as "one of the foremost of the younger German economists and perhaps the most eminent representative of pure theory in Germany during recent years." That this praise is not exaggerated is amply proved by the work itself.

The book is organized in six parts. Part I discusses "Fundamental Concepts and Relationships." Part II presents "The Economics of Production," Part III "The Economics of the Household." Part IV deals with "The Determination of Prices," Part V with "The Distribution of Income and the Factors of Production." Part VI concludes the book with a discussion of "Competition as the Guiding Principle in the Economic Satisfaction of Wants." (This title is a rather free translation of the German original.)

As this outline of the contents indicates, the book is confined to structural or relativistic economics; it omits aggregative economics. (In this respect, as in many others, the book is similar to Professor Stigler's text or to the first edition of Professor Boulding's.) The analysis is mostly confined to statistics and includes only occasional references to dynamics. The exposition throughout is clear and concise. Geometrical representations are used to approximately the same extent as has become customary in American texts. Mathematical derivations or equations are only sparsely employed. This is in line with Stackelberg's ideas on the use of mathematics in economics: although indispensable for original analysis—and a prerequisite for the study of economics—mathematics should be avoided in the general presentation of the subject. Avoided also are historical and descriptive intrusions into the presentation of theoretical economics. The author firmly believes that a mixing of descriptive and analytical materials in a textbook spoils the clarity of the "logical apparatus" of economic theory.

The book is completely free of polemics; it nowhere discusses opinions different from those of the author. Stackelberg holds that there exists today almost complete unanimity among economic theorists with respect to fundamentals. The reviewer is afraid this unanimity is achieved only by an arbitrary definition of "economic theorist": presumably, anybody who disagrees is no economic theorist. Fortunately, the reviewer has found no occasion to disagree with Stackelberg on any major issue of economic theory, but he suspects that some of his colleagues to whom he should not want to deny the title of economic theorist might take exception to a good many things on which Stackelberg and he agree.

Professor Wagner called this book "undoubtedly the most comprehensive exposition in German of the foundations of the system of theoretical economics." If it were available in English it would not be the most comprehensive of our texts in economic theory; but it would certainly be one of the best.

Johns Hopkins University FRITZ MACHLUP

Grundzüge der Theoretischen Nationalökonomie. By Alfred Amonn. Berne: Francke, 1948. Pp. 193. Paper, s.fr. 11; cloth, s.fr. 13.80.

This new textbook has been written "to give a presentation of economic theory in its modern form, as it has been worked out during the last decades." Such a presentation is urgently needed in German-speaking countries, for the results of British and American economic thought, which has shown the greatest originality in that period, have not yet been the focus of discussion among economists in Germany, Austria, and Switzerland. What approaches and theorems should be discussed in a book that intends to fill the gap? Although every economist would make up his own list of notable achievements in theory, most members of the profession would probably agree that at least the following items deserve a prominent place: the elaboration of a theory of semimonopoly by Edward Chamberlin and Joan Robinson; the "Keynesian Revolution"; and the broadening of the price and market concept by the Taylor-Dickinson-Lange school, which made this concept applicable to collectivist economies.

Professor Amonn gives a satisfactory presentation of the Robinson-Chamberlin theory. As to Keynesianism, it is hardly an exaggeration to say that the book reads as if it were written before the appearance of the *General Theory*. Nor does the author show any awareness of the controversies over the role of prices in other than capitalistic systems. In defense of these omissions, it might perhaps be said that Dr. Amonn believes neither in Keynesianism nor in the theories of the market socialists, and that he has written a textbook, not a critical study of contemporary theory. But even a textbook should give more than a dogmatic presentation of the ideas which the author happens to regard as true: the student should at least get a glimpse of the most important unsettled controversies. In particular, no textbook on modern economics fulfills its task if it fails to show the reader the impact of the Great Depression on economic thinking, and Keynesianism, whatever objections may be raised against its theorems, must at least be considered as the most important expression of concern about the possibility of long-lasting underemployment. The book has some good points, e.g., the clever

combination of algebraic and geometric methods in the exposition of supply and demand functions, but these merits cannot compensate for the *lacunae*.

University of California CARL LANDAUER

Die neue Weltwirtschaft. By Adolf Weber. Munich: Richard Pflaum, 1947. Pp. xii, 471.

Professor Weber's book, *The New World Economy*, a thoroughly revised edition of his 1932 text, is something of an antidote to purely technical treatments of the subject. Written for the intelligent layman, it offers an eminently realistic view of international economic problems, characterized throughout by the author's emphasis on their political aspects. Elementary economic chapters on money and prices, methods of international commodity exchange, and balance of payment problems are imbedded in a wealth of material dealing with problems of population, raw materials, technology, economic systems, colonies, reparations, and the like; but the chapter headings hardly convey a proper idea of the broadness of his approach, which includes, for example, discussions of "atom control and Nuremberg trials as trail blazers of world unity," "dangers to the white race," "the colonial problem in the new French constitutions," "the 'right to a job' as an obstacle to the return of the gold standard," "oil imperialism," "activities and difficulties of UNRRA," etc. Even in his purely economic discussions, Professor Weber deals with economic principles merely as guides to the understanding of concrete situations in all their political, ethical, and social perplexities. Needless to say, he never sits on the fence; sometimes his attitude is very explicitly stated, more often it is unmistakably implied in the approach and emphasis he selects.

Economists will find little that is new in the book, and students of foreign economic relations might be inclined to consider it too untechnical. Professor Weber strictly adheres to his purpose of discussing the new world economy "without prejudice, lucidly and simply, and in a manner understandable to the layman." But since the layman he addresses is the European layman, the American reader may find the book highly stimulating and, indeed, revealing for the insight it offers into the thinking of nations to whom foreign trade and exchange are truly vital matters and who, for that reason, cannot and will not separate the mechanics of world trade from its political meaning.

University of Georgia GREGOR SEBBA

Die wechselseitige Konjunkturabhängigkeit von Landwirtschaft und Industrie in den USA, 1919–1941. By Dr. Eduard Wyttenbach. Berne: Franke, 1947. Pp. 250. S.fr. 28.

Using the United States business cycles from 1919–1941 as example, Dr. Wyttenbach analyzes the causal relationship between industrial and agricultural fluctuations and finds it to be one of interdependence. In the course of his empirical investigations he arrives at a number of specific conclusions which, together with his statistical comparisons, constitute the main merit of the study.

Parts I and II, being an elementary survey of cycles statistics and agricultural

cycles, are redundant; the author makes the common mistake of ascribing an almost mythical importance to base periods taken as 100 per cent while overlooking the real period problem of weighting. Part III analyzes the dependence of agricultural cycles upon industrial fluctuations, dealing with prices and incomes, the "dynamics" of demand and supply, and with the effects of foreign demand. His comparison of various farm price and production series with factory payrolls is particularly interesting. He finds that factory payrolls set an upper and lower limit to agricultural fluctuations and concludes that the relatively small volume of purchasing power of industrial workers decisively affects the prices of important farm products and raw materials with elastic demand (p. 112). Part IV then reverses the procedure and analyzes the effect of agricultural fluctuations on the industrial cycle. From his study of the effect of changing crops and farm income on consumer purchasing power, savings, investment, transportation, wholesale trade, demand for capital goods, bank liquidity, etc., he concludes that the major effect of harvest is an indirect one, exerted through the medium of the rate of investment and of price-expectations in the nonagricultural field. A bibliography of publications in English and German (p. 245–250) is added.

Dr. Wyttenbach's investigation is patterned after the models set by Wagemann's and Hayek's Berlin and Vienna Institutes of Trade Cycle Research; it is well documented, and the statistical material is presented in numerous excellent charts. In its methodic, comprehensive coverage of the manifold problems of agricultural cycles, the book represents a welcome and stimulating addition to the literature.

University of Georgia GREGOR SEBBA

Soviet Views on the Post-War World Economy. Translated by Leo Gruliow. Washington, D. C.: Public Affairs Press, 1948. Pp. 125. $3.00.

In May 1947, there occurred in Moscow a three-day discussion among Soviet economists of a book published by Mr. Varga, one of their most distinguished colleagues, under the title "Changes in the Economy of Capitalism Resulting from the Second World War." The work under review is a translation of the stenographic record of this discussion. The discussion itself was not, as it purported to be, merely a scientific critique of Mr. Varga's book. The subsequent closing of the World Institute of Economics in Moscow, of which Mr. Varga was director, and the suspension of the publication of *World Economy and World Politics*, of which he was editor, stamps the discussion as little more than a heresy trial.

Mr. Varga's heresy consisted in conclusions that were less sanguine than those of the party line with respect to the postwar weakness of world capitalism as well as the postwar strength of the new "people's democracies" of Eastern Europe. In the eyes of his colleagues, Mr. Varga arrived at erroneous conclusions because of a faulty methodology. Instead of adhering to strict Marxist-Leninist analysis, Varga was guilty of dalliance with "conjuncture" (business cycle) analysis which smacked too much of decadent bourgeois thinking.

This whole discussion has a peculiar fascination for an American economist for it reveals the wide abyss that lies between himself and Soviet economists with respect to the range of problems that are considered important as well as to the method of attacking them. Here the actuality of two worlds instead of the chimera of "one world" stands out in all its nakedness—a division that is not only a matter of political and economic organization but is one that cleaves to the epistemological roots of the two systems that are now struggling for the soul of the world.

Federal Reserve Bank of Atlanta EARLE L. RAUBER

Readings in Economics: Principles and Problems. Compiled and edited by Walter Adams and Leland E. Traywick. New York: Macmillan Co., 1948. Pp. xi, 520. $3.00.

Significant comment on a book of readings is provided by an examination of a list of the writers included. In this volume, 50 different authors are represented, 46 of whom are American or British, the British being represented by 10 different men. The only non-Anglo-Americans given places are Böhm-Bawerk, Marx-Engels, Bastiat, and List. The American who receives the most mention (four items) is Henry Hazlitt.

Lest a wrong impression be created, however, let the reader be informed that Mr. Dooley (Finley Peter Dunne) is represented by some amusing bits on the open shop and the tariff. There are several interesting excerpts from congressional documents and other government sources, like the Frederal Trade Commission, Council of Economic Advisers, and the Board of Governors of the Federal Reserve System. Private groups like the National Association of Manufacturers, the Chamber of Commerce, U. S. Steel Corporation, and others, are also represented.

The selections are often quite short, and a fairly limited range of opinion is represented, the contribution of continental Europe being all but omitted. An attempt is made to ensure that these readings are contemporary and up-to-date. Although there are some interesting articles included, and their book is not without merit, Adams and Traywick do not seem to have fully satisfied the needs of teachers looking for a one-volume selection of readings to supplement a general economics textbook.

North Carolina State College FRANCIS E. MCVAY

The Structure of Post-War Prices. By Frederick C. Mills. Occasional paper No. 27. New York: National Bureau of Economic Research, July 1948. Pp. 66. 75¢.

Dr. Mills' admirably compact little monograph emphasizes the unexpected leading role of the consumption rather than the production sector as the distinguishing factor of the present United States price structure. There are changes in the cost structure too: only fixed overhead and depreciation costs failed to participate in the steep postwar rise, and the doubling of profits 1939–1947 thus appears to be caused by this temporary lag, plus the rapid increase in inventory

valuation. In the labor field, average hourly earnings in manufacture doubled but average output per man-hour increased only slightly, with wide variations from industry to industry. Dr. Mills then compares price movements in the two world wars; graphically equaling the six-year period 1939–1945 to the four-year period 1914–1918, he obtains a different (and, it would seem, truer) comparison than the customary one. Finally, the National Bureau of Economic Research scheme of cycle stages is applied to 18 peacetime and to 3 wartime cycles, showing that an "explosive" price rise in the final stages of the upswing characterizes the latter.

Dr. Mills believes that a future modification of the present price relation between consumers and producers goods is more likely than a reversal; continuing foreign demand and increased productive efficiency may provide an "umbrella" under which readjustment could take place without a drastic upheaval. Dr. Mills' findings suffer from the fact that his "postwar" data are those of IV-1947 and, in some instances, February 1948, that is to say, to points on a yet incomplete upswing. This uncertainty about his "given period" cannot be remedied by extending comparison back to three different base periods, xiv., 1939, 1924–1927 and 1912–1914, as he does. The "confirmation" he thus obtains would seem to raise more questions than it answers.

University of Georgia GREGOR SEBBA

The Economics of Public Finance. By Phillip E. Taylor. New York: Macmillan Co., 1948. Pp. xxii, 617. $4.50.

The stated purposes of this text are, first, to make available to the student the gist of recent developments in fiscal theory and practice, and second, to incorporate public finance into the body of economic theory and analysis. The major subdivisions of the book are: introduction (one chapter), fiscal administration (one chapter), expenditures (four chapters), public debt (three chapters), revenues (14 chapters), coordination of systems (one chapter), and major issues (one chapter).

Teachers who prefer the macro-economic approach, with a treatment smacking strongly of Keynes and Hansen, will probably receive with enthusiasm the first nine chapters of Professor Taylor's text. Those who desire a factual and analytical presentation of government revenues, with attention to administrative feasibility, shifting, incidence, certain effects, and suggestions for reform, will find the several chapters on revenues good and perhaps excellent.

In the reviewer's opinion, the author fails to effect a harmonious and clear synthesis of his macro- and micro-economics. The approach employed would seem to lead logically to a concept of "justice in taxation" couched in terms of over-all consequences of fiscal policy and government intervention, rather than one apparently bottomed largely on the assumption of a downward sloping utility function and its doubtful implications relative to progressive taxation. It would appear also possible to develop a more meaningful set of criteria than those enunciated. Many will find the treatment of scarifice in taxation attenuated and astonishingly illogical. Some may take exception, in certain instances, to

terminology, such as the identification of real and psychic income, or the use of the word "sumptuary" to include all nonrevenue objectives in taxation. Further, if one is to agree with the author in his proposal that earned income credits be allowed to cover depreciation on the human resource, it would appear logical to disallow personal exemptions for children on the ground that expenditures for the rearing of children are capital charges.

Despite the many adverse criticisms which might be made, this text will probably be widely applauded; on the whole Professor Taylor's difficult task has been wisely conceived and his treatment well executed.

Davidson College A. G. Griffin

Money Market Primer: A Study of the Institutions and Operations of the New York Money Market. By John T. Madden and others. New York: Ronald Press Co., 1948. Pp. viii, 212. $3.00.

In their search for text materials in the field of money and banking, teachers of the subject have found that most of the texts do not make clear to students the precise effects of financial transactions on the balance sheets of the agencies involved, generally banking and nonbanking institutions, the Federal Reserve Banks, and the Treasury. It is one of the merits of this book that in the first two chapters, which deal with the variables which comprise the market for funds, extensive use is made of the "T" account and other devices to facilitate the tracement of effects of changes in demand and supply factors.

Of the remaining seven chapters, five are devoted to an historical account of the authorities' use of the instruments of monetary control, the effects of the war on the market for funds, the capital-deposit ratio in commercial banking, the origins of the dilemma provided the authorities by the outstanding marketable debt, and debt-management problems resulting from war financing. While the descriptive material is presented skilfully, it duplicates to a considerable extent that found in the standard texts and thus renders these chapters less useful as collateral reading in money and banking courses. Most teachers will wish that the material in the first two chapters had been expanded at the expense of the historical content, particularly at the expense of the chapter on the capital-deposit ratio, which is given more space than its importance warrants.

Finally, there is a chapter on the organization of government bond houses and one dealing with New York City as a center of world finance. The authors point out the conditions necessary for revival of world finance on a private basis and are mildly optimistic that these conditions will be satisfied.

The authors do not come to grips with basic theoretical issues, but probably this is to be expected in a book on the primer level. At one point (p. 125) the reader infers that the authors hold to a self-liquidating loan theory of commercial banking and in several places qualitative credit controls are looked upon with favor as compared with quantitative controls.

It has been stated that the first two chapters will be found very useful in money and banking courses and the remainder of the book definitely of less value. It should be pointed out, however, that the book was apparently not written pri-

marily with an eye to its use in college courses. As the preface states: "This study of the money market should . . . be of interest not only to bankers, executives of insurance companies and other financial institutions and students of finance but also to businessmen generally. The volume should likewise be of value to teachers of money and banking." The book will best fit the needs of those to whom it is primarily directed.

University of Chicago MARSHALL D. KETCHUM

Trade Union Wage Policy. By Arthur M. Ross. Berkeley: University of California Press, 1948. Pp. 133. $3.00.

This monograph is a reprint of five closely related essays that have been published recently in learned journals. The author's thesis is that present wage theory is unsatisfactory—and particularly unsatisfactory when it deals with unionism. He finds that inadequate as the concept of a firm as a profit maximizing body may be, the parallel concept of a union as a body attempting to maximize the economic welfare of its members is even worse. It is not only distressingly vague, but it is deceptive because it overlooks the fact that a union is basically a political agency that operates in an economic environment. Of all the participants in economic life, it is probably the least suited to purely economic analysis. To regard it as a monopolistic seller of labor governed by a maximization principle hinders rather than aids any meaningful analysis of union wage policy.

While not offering a complete theory of wages, Dr. Ross does attempt to construct a theory of unionism and of union wage determination. He points out that though the union's formal purpose is to promote the welfare of its members it has a life distinct and apart from them. It is no more a primitive democracy than it is a simple monopoly. As a political institution it is surrounded by numerous interest groups; its rank and file, the employers, the union officials, other unions, and agencies of government. The task of the union is to reconcile the pressures brought to bear by these groups in the bargaining process so as to serve its own objective as an institution—its survival and growth. With the acceptance of this interpretation of union motivation many of the union policies that appear economically illogical are seen to possess this higher logic of survival.

Under unionism there is an increase in the tendency toward uniformity in the wage structure. This tendency, Dr. Ross insists, has never been merely the result of the forces of supply and demand. An ever present force acting upon wages is the idea of equity and justice. Unionism strengthens the process of equitable comparisons in wage setting and further equilibrates wages through the development of company and industry wide bargaining. The price of industrial peace increasingly becomes equality in adjustments.

With the growth of wage fixing, economists have demanded that unions accept responsibility for the employment effects of their wage policies. The author argues that this responsibility cannot be fulfilled. The particular equilibrium approach of the economists furnishes no basis for action. It makes the effect of a wage adjustment on employment unpredictable before the fact and undecipher-

able afterward. The only contribution of this analysis is that the lower the wage the better, a viewpoint the union's survival interest will not allow it to accept.

Beside discussing the concept of union responsibility the author also has included essays on union-management relations and a statistical study of the effects of unions on earnings. In all, these essays are an excellent piece of work. They are obviously the product of much thought, wide experience with union matters, and a catholicity of theoretical interests. It will be interesting to see if the author can carry this type of analysis still further. Meanwhile this book will be of great interest to labor economists and may give certain price theorists an idea of the real nature of a labor union.

Agricultural and Mechanical College of Texas A. MORGNER

Economics and Problems of Labor. By Philip Taft. Revised edition Harrisburg: Stackpole & Heck, 1948. Pp. xx, 822. $5.00.

It is a common observation upon our modern industrial society that we are attempting "to know more and more about less and less." However, when one finishes pouring through 29 chapters, 798 pages, of solid fact and opinion in Professor Taft's revised book, one has the feeling that the adage is being reversed and that we are starting on the road of "covering less and less about more and more." This is said because, in the opinion of the reviewer, the author has tried to cover too much material within the scope of his subject. His interests range throughout the entire field and touch almost every subject that bears in the least upon the problems of the nation's labor force. In doing so he has spread himself out over so many topics that he has seriously impaired his effectiveness in any one. Thus the seemingly paradoxical conclusion as to the worth of the book is that it is too long in number and variety of material covered, and too short in content at many places to give it an unqualified endorsement.

This is not to say, however, that the book is not a timely and valuable contribution to a field in which the number of teachable texts is altogether too small. It is well planned, well written, well documented, and with a few exceptions is flawless in detail. There is throughout the volume an undertone of implied sympathy for the labor movement, but there are also gentle rebuffs for irresponsible labor leaders who do not realize that "it (labor) is too big and its decisions too important for it to ignore the long-run effects of its conduct" (p. 791).

There are a few inconsistencies and minor errors, although they are kept at a pleasing minimum. Whether striking employees are entitled to unemployment benefits is left in the air as he indicates (p. 141) that "benefits cannot be denied eligible workers: (a) if they refuse to accept employment during a labor dispute," yet (p. 146) "all compensation laws contain provisions which bar payments to claimants who . . . (4) are engaged in a labor dispute." The word "adopted" is misspelled on page 374. Pages 445 and 447 are mislabeled in chapter 15: they should be "Structure and Function" to agree with the chapter title, not "History and Development" which is the title of the previous chapter. "Under the provisions of the Taft-Hartley law, a member expelled or suspended from

union membership cannot be barred from working at a plant operating under the union shop" (p. 502). The issue here is omitted. If the expulsion or suspension is due to a refusal to pay *standard* dues and initiation fees the employee *can* be barred from employment under a union shop, but for this reason only. "Although an employer is not permitted to require membership in a labor union as a condition of employment, the Board has held that a closed-shop arrangement is permissible if it is included in an agreement with a recognized union" (p. 587) is somewhat at variance with the law, which is recognized on pages 589–590: "The closed shop—one in which membership is a condition of employment—is prohibited under the law. . . . " As to information which unions must file with the government, noncommunist affidavits go to the NLRB, not to the Secretary of Labor (p. 590).

All things considered, it seems to the reviewer that the first 12 chapters leave much to be desired in quality, but after this point the author proceeds to write a book that deserves to take its place among the better texts in the field.

Wake Forest College RICHARD POWERS

The Labor Force in Louisiana. By Rudolf Heberle. Baton Rouge: Louisiana State University Press, 1948. Pp. 189. $2.00.

While this study is based almost wholly on the 1940 statistics of the labor force for Louisiana, it is more than a simple commentary and reprint of such statistics. The author has carefully woven the census data together so as to provide a valuable device for grasping the economic nature and problems of an area as viewed from the standpoint of labor utilization. It is to be hoped that similar studies for other states will be made in the future on the basis of 1950 Census figures and that this study will then also be brought up to date.

Louisiana, in contrast to the national picture, appears marked in its labor force characteristics by two facts: the high percentage of the labor force engaged in agriculture (32.2 per cent), and the high percentage of Negroes in the labor force (38.2 per cent). These two well-known facts and their economic and social accompaniments are reflected throughout all the national statistical comparisons. Louisiana is short on professional and skilled labor; it stands high in the number of independent proprietors; unpaid family workers are twice as common as in the rest of the country; child labor is substantial; etc., etc. The author, it should be said, does not make a central thesis out of these two matters, but one cannot help but be impressed by their continual statistical reflections throughout every page of the book.

Louisiana's labor force also differs in some respects from that of the rest of the South as well. Louisiana industry is not oriented to low labor cost manufacturing activities to the extent generally found in the South. The textile industry, important to much of the South, is not significant. Proximity to raw materials is the basis for Louisiana's "big three" in manufacturing. These industries are the food, lumber and paper products, and the petroleum and chemical industries. They provide 60 per cent of all manufacturing employment, but manufacturing employs only 12.9 per cent of the state's labor force. The absence of coal, iron,

and water power has retarded the development of heavy industry in the state. While the oil and chemical industries show great prospects for expansion, these are industries that do not have a high job creating capacity.

The key to future labor force developments in Louisiana, as in most of the South, appears to be a matter of whether an accelerated agricultural revolution based on mechanization will take place and whether such a likely event will be accompanied by great offsetting industrial expansion. The author does not profess to know what the future holds in store, but he concludes that if a more industrialized economy is to come the experiences of World War II in promoting labor mobility and developing industrial skills should at least ease the transition.

Agricultural and Mechanical College of Texas A. MORGNER

The Management of Men. By Ronald B. Schuman. Norman: University of Oklahoma Press, 1948. Pp. xiii, 208. $3.00.

In this day when so much of the literature in the management field concerns itself with specific techniques for developing methods of operation, it is refreshing to find a book which delves into basic fundamentals. The author frankly admits that his reflections are not complete, but represent "a probing about in a field of great current significance." He has, if you please, baked a new cake, the ingredients of which are philosophical and psychological concepts applied to the function of broad administrative management.

Men, like dogs, often bark loudest when they are scared. The flood of material extolling private enterprise which is currently being circulated and the pressures which are being applied in the academic field by various organizations of businessmen are evidence of such fears. Mr. Schuman begins by striking directly on this point, "American business leadership is traditionally strong and gifted in what may be termed the techniques of everyday management—the solving of operational problems. Failure to maintain and apply a flexible, efficient, and aggressively positive theory of the usefulness of private enterprise to all elements in society has left the administrators in an intellectually difficult and increasingly defensive position." The body of the book develops this position by first analyzing the nature of man, of organization, and of administration and then making applications to both public and private administration and to current problems in administration.

The book is a challenge, specifically to businessmen who are willing to think, not bark, and generally to all of us. "Not words, no matter how cleverly compounded by the most able of public relations counsel or advertising agencies, but deeds are needed." At least some broad guides to deeds are ably presented by Mr. Schuman He writes well and the result, while scholarly, has a virtue too often lacking in the work of many of our "profound" scholars, it is readable: a book worth reading and worth pondering.

University of Alabama BURTON R. MORLEY

Wool Tariffs and American Policy. By Donald M. Blinken. Washington: Public Affairs Press, 1948. Pp. vii, 168. $3.00.

Mr. Blinken succeeds reasonably well in his task of examining the functions and economic effects of the American tariff on raw wool and wool fabrics and of suggesting a sound policy.

Although before World War II this country produced most of the wool it consumed, since 1941 it has imported approximately 70 per cent. This situation, the author believes, will continue well into the future if, indeed it does not become permanent. In the light of this assumption, Mr. Blinken recommends (1) that the existing duty on raw apparel wool be abolished and (2) that the United States government purchase the domestic wool clip at a fair support price.

Imports of wool fabrics into the United States have averaged 1.7 per cent of domestic wool textile production, these imports being almost exclusively high-priced, luxury items, which do not compete with American products. The author suggests that all duties on wool fabrics be abolished, with the United States reserving the right to restore an ad valorem duty on any fabric imported in an amount in excess of 5 per cent of average annual domestic production of similar fabric during the three preceding years. A provision of this type would appear to provide sufficient protection to the American wool textile industry.

This study would have been immeasurably strengthened by a more adequate economic analysis of the actual and potential competition of the American wool industry. The analysis is also weakened by failure to consider pulled wool, a byproduct of the meat packing industry.

Among minor defects it might be mentioned that much of the value of the charts in this book is lost because they are not numbered, virtually no reference is made to them in the text, and there are technical deficiencies in the charts themselves. Some readers will appreciate, while others will be irritated by, the frequent summaries.

Mr. Blinken's argument, while not profound, is lucid and will be appreciated by those who favor a moderation of this country's tariff policy.

Alabama Polytechnic Institute HAROLD E. KLONTZ

Marketing: Principles and Methods. By Charles F. Phillips and Delbert J. Duncan. Chicago: Richard D. Irwin, 1948. Pp. 729. $5.00.

A book can impress a reviewer so favorably that he might wish that he had written it. Conversely, it can impress him so adversely that he might wish that he had not been called on to review it. The present reviewer wishes that he had written this one, or could have written one like it.

While writing this book the authors have kept in mind the needs of both students and businessmen. Although it is designed to serve primarily as a textbook in the basic marketing courses, it also provides for businessmen a broad picture of the structure and functions of marketing. In the reviewer's opinion, the book fulfills both its objectives quite well.

The reviewer has been favorably impressed by three physical features which contribute to the readability of this book. First, the paper in it is of good quality. Second, its physical format is above average, and third, the print is not too small.

A textbook cannot achieve scholarly excellence without the use of a precise

phraseology and a logical arrangement of its ideas. This book should prove to be quite teachable because it presents its subject matter in a clear, straightforward style. The text is not only well arranged, but it is also thoroughly documented with excellent footnotes which cite the most recent source materials. The commodity, functional, and institutional approaches to the study of marketing are used throughout the book. Some critics would not like this, but the reviewer does.

Marketing is characterized by the authors in such a way that free enterprise is made to look like an asset to consumers rather than a liability. Moreover, in the presentation of their subject, the authors have displayed a high degree of practical maturity throughout most of the book. They admit, in the preface, that this practical maturity was acquired in government agencies during World War II. The reviewer can appreciate the true significance of this admission because he also was exposed to such maturity development.

The book is not without a few minor weaknesses. For example, it illustrates a number of important principles with "old data" such as are found in the Census of Business, 1939. See chapters VII and VIII for convincing evidence of this. Some of the table titles that are used in the book are incomplete. The word "below" in the last sentence of page 479 is not correctly used. A printer's error (page 335) accounts for the following: Census of Business, Volume I, Wholesale Trade: 1939. The volume number should have been II, in this case. The stub item "drugstore with fountain" appears twice in Table 26 (page 719). There probably are further errors of this type which the reviewer has failed to note. While such minor shortcomings are not serious they nevertheless do tarnish an otherwise excellent book.

Due to its excellence, this book deserves to become popular. It is a fine contribution to the literature of marketing because it presents a mature discussion of this subject. The reviewer predicts that it will not fail to make the grade as a topnotch textbook.

Loyola University of the South PAUL H. ANDERSON

Procurement: Principles and Cases. By Howard T. Lewis. Chicago: Richard D. Irwin, 1948. Pp. 745. $5.00.

This book is essentially a revision of the author's *Industrial Purchasing* published in 1940 by Business Publications, predecessor to Irwin. The book appears under a new title, however, and no mention is made of the earlier text in either the Title Page or in the Preface.

The same pattern of organization has been used in this book as in the former and much of the textual material has been duplicated in its entirety. A superficial examination might give the impression that the books are identical, except for three changes: (1) substitution of the term "procurement" for "industrial purchasing," (2) inclusion of problem case material, and (3) omission of the extensive bibliography which characterized the earlier edition.

Although the two books have many similarities and contain much of the same material, the new book represents a marked improvement over the earlier edition.

Much more textual material is included and it is presented in a more mature and more forceful manner. The book is strengthened by the omission of the 53-page bibliography and by the elimination of a number of general quotations. Neither of these served any particular purpose in the earlier book, and they required space that could have been used to better advantage for textual and problem material. Illustrative forms are presented in adequate number and show careful selection. The most important characteristic of the book, however, is the combination of problem case material with textual material in a single book. The problems are well selected and the combination fills a real need in the university teaching field. It is hoped that Irwin as well as other publishers will make available more textbooks of like type and quality.

The author's treatment of procurement functions and procedures is thorough and complete. His book overcomes the criticisms made so often of texts in this field, namely, the apparent groping for materials or too much discussion of detailed procedures and not enough discussion of "reason why." Those who teach university-level courses in purchasing or procurement will find this book to be a more usable text than any available heretofore. Teachers of allied courses in marketing and production will find the book valuable for reference and supplementary reading assignments.

University of North Carolina C. H. McGregor

The Board of Directors in Small Corporations. By Myles L. Mace. Boston, Mass.: Graduate School of Business Administration, Harvard University, 1948. Pp. 92. $2.00.

This is the third report of the Harvard Business School on the subject of corporation directors, following *Directors and Their Functions: A Preliminary Study* by John C. Baker, and *The Board of Directors and Business Management* by Melvin T. Copeland and Andrew R. Towe.

A small corporation as described for the purposes of this study is the close corporation managed entirely by its president, who with probably his wife and a young son constitute the membership of the board. In a situation of this kind, the author explains, the services of an outside member of the board can be most helpful. He can assist in policy making, in provision for management succession, in representing minority interests if any, and in the solution of critical operating problems. He serves mainly by bringing new ideas to the manager, by making outside contacts, by helping out in emergencies and by standing as an ever ready friend and counselor. Such a director is best found among lawyers, bank officials, managers of other small businesses, or members of the business professions. He is not usually found among top executives of large corporations unless he happens to have had experience previously in a small business.

The author makes a strong case for adding outside directors to the board of every close corporation, and he offers many illustrations which not only clarify his explanations but make his study interesting to read. Students of the small business concern cannot afford to overlook Professor Mace's book.

University of Alabama E. H. Anderson

Say It With Figures. By Hans Zeisel. Second edition. New York: Harper & Bros., 1948. Pp. xx, 250. $3.00.

It is a pity that Dr. Zeisel saddled a highly original and useful book with a title which can hardly be called revealing. Professor Lazarsfeld in his introduction states the purpose of the book very well when he calls it an inquiry into the problem of "establishing the conceptual meaning of specific statistical procedures" (p. xx).

There is little doubt that such inquiries are badly needed. The recent rapid progress of statistical methods has been mainly technical, and the conceptual meaning of even very elementary procedures has been largely neglected. Zeisel's book covers several of these areas and treats them in a manner which recalls the conceptual investigations of Zizek, Winkler, Haberler, and others.

The first part of the book treats problems of classification arising in opinion and market research, particularly the thorny "Don't Know," "No Answer," and similar replies "which are so often . . . lost at the bottom of statistical tables." Part II analyzes "Means of Numerical Presentation," namely percentages and simple indices. Far from being elementary, his systematic discussion of the "variety of uncertainties and difficulties" encountered in the construction of tables and the use of percentages leads into very intricate problems of interpretation. The treatment of "Two and More Dimensional Tables" is especially rewarding. Part III is devoted to a study of cross-tabulation and simple correlation as "Tools of Causal Analysis" which puts life and meaning into subjects that have tended to become hackneyed.

Although Mr. Zeisel's examples lie mainly in the field of opinion research, the book is important to economic and business statisticians and, last but not least, to teachers of elementary and applied business statistics. The latter will find it a great help in making the drab, seemingly unpromising introductory chapters on tables, percentages, and ratios meaningful and interesting. The former may have to do some translating of Dr. Zeisel's findings into the language of their specific field; but their excursion into statistical logic may well lead to greater awareness of the capabilities of their everyday tools and, perhaps, to greater suppleness and flexibility in applying them.

University of Georgia GREGOR SEBBA

STATE REPORTS

ALABAMA

Economic activity in Alabama during the third quarter of 1948 continued at record levels. The index of industrial activity for August 1948 prepared by the University of Alabama's Bureau of Business Research reached 199.2 per cent of the 1935–1939 average year, a gain of slightly more than 6 points over May 1948. During the quarter new highs were recorded in some lines. The state's steel ingot production index rose to the highest point in 30 years, and that for electric energy sales was the highest in 25 years. Some lines, however, showed declines. Coal production, cotton spindle activity, and construction were below second-quarter levels. Employment activity during the third quarter was substantially above the corresponding period last year, but job applications were higher and job placements lower than those for the second quarter of the current year. Nevertheless, placements exceeded applications throughout the third quarter.

Alabama farm income during the first half of 1948 amounted to $127,816,000, an increase of 8.5 per cent over the first six months of 1947. The increase in income from livestock and livestock products was much more important than that for crops. The former increased 13 per cent, while crop income showed a gain of only 4 per cent. It is significant to note that 73 per cent of the increase in farm income is attributable to livestock and livestock products. This is a partial reflection of the growing importance which the beef cattle and dairy industries are playing in the state's agriculture. Although complete figures are not yet available, it must be assumed that a considerable part of the increase in farm income is due to rising prices.

During the first 11 months of the current fiscal year, the state's revenue from approximately 40 tax sources is 15 per cent greater than in the corresponding period last year. At the rate at which collections are now being made, it is estimated that total tax collections for the fiscal year ending September 30, 1948, will be slightly more than $88 million. This will represent the largest tax revenue in the state's history. For the first 11 months of the fiscal year the four largest sources of tax revenues, in the order of their importance, are sales tax, gasoline tax, income tax, and tobacco tax. These four sources so far this year have accounted for 89 per cent of all revenue from the 40 tax sources reported.

The $10 million copper tubing plant of the Wolverine Tube Division, Calumet and Hecla Consolidated Copper Company, was recently completed at Decatur and operations have started. The company makes nonferrous copper tubing for air conditioning, refrigerating, and oil refining. A large cheese plant at Greensboro started operations during the third quarter, and a similar plant is now under construction at Florence. These are only a few of the industrial developments which have taken place over the state during the third quarter of 1948.

University of Alabama LANGSTON T. HAWLEY

FLORIDA

Business conditions in this state continued prosperous during the third quarter of 1948 in spite of low prices for some agricultural products. Manufacturing employment and payrolls showed more than their usual seasonal increases. Trade and service industries, which accounted for nearly one third of the incomes of Floridians in 1947, continued to gain. Receipts from the state's three leading sources of revenue, taxes on gasoline, alcoholic beverages, and cigarettes, were approximately 7 per cent greater than for the same period in 1947. From all sources during the period, July 1 to September 30, the state collected $45,881,049 compared to $40,532,635 in the same period in 1947.

The only segment of the state's economy that failed to show gains over a year ago was agriculture. Although prices of livestock and some vegetables were favorable, the two-year decline in citrus fruits continued unabated as a new marketing year began. Fortunately Florida farmers were not faced with excessive debts, however, according to an American Bankers Association survey of farm loans in the state.

With citrus prices touching new lows, much attention was being given to plans for improving them. Hearings were conducted throughout the citrus belt during September and October by Senator Pepper sitting as a one-man subcommittee of the Senate Committee on Agriculture and by Governor-elect Warren. Criticisms centered around alleged misuse of the "color added" process, uncoordinated marketing methods, and use of poor quality fruit. Suggestions for improvement included a "taste test" for fresh fruit, tighter state laws regarding coloring and shipping, better advertising, a guaranteed minimum price, and on all-inclusive marketing organization. Meanwhile, efforts to sign up 75 per cent of the state's citrus output in Florida Citrus Mutual continued to make some progress, even though the canners and some growers were reluctant to join.

Trustees of the Internal Improvement Fund turned down a bid by a private development company of $100,000 cash plus 16 per cent royalty on oil that might be produced from some 2,000,000 acres of scattered lands on which the state owns petroleum rights. To many this action may appear to be "too little and too late" since leases have already been signed on all of the state's Gulf coast tide lands as well as its principal lake and river bottoms.

University of Florida C. H. DONOVAN

KENTUCKY

This is the age of polls and surveys. It seems that soon there will be as many investigators as investigated, surveyors as surveyed. Once again the Governor has appointed a committee of citizens to investigate the state's resources with an eye to furnishing information to industrialists who might be seeking locations for their operations. An Agricultural and Industrial Development Board was authorized by the 1948 legislature and given a $300,000 appropriation. It is supposed to inventory the human and natural resources of the state, including

such things as labor supply, water, fuel, power, taxation, transportation, and communication, together with studies of land utilization. It is proposed to determine areas suitable for field crops, pasture, reforestation, watershed protection, reclamation, game preserves, recreation, parks, and industrial and urban development.

The state at last has come to grips with the problem of assessments for property taxation. Acting upon the request of citizens committees, two counties (Caldwell, west, and Johnson, east) have been selected for property tax equalizations with the assistance of the Department of Revenue. The Caldwell group labeled the county's assessments "deplorable." It is proposed to raise assessments to 56 per cent of sale value. Gross undervaluations and unlisted property were, of course, the chief offenders. The successes gained from use of aerial maps of large sections of the county furnished by the TVA have highlighted the fact that adequate maps of the state do not exist. Topographic maps are woefully deficient, and only a few areas have been properly photographed from the air. Accurate maps would serve many other groups besides assessors—soil conservation, sanitary, and health agents, highway and public utility engineers, to mention only a few. The Governor's committee on resources and industries is severely handicapped by their lack. Old-time land descriptions in which distances and areas were loosely designated "more or less," plus the fact that many of the stumps, rocks, trees, forks of streams, and fence corners so frequently mentioned in the old deeds and surveys are gone or no longer recognizable, complicate assessment procedure. Some idea of the need is obtained from the fact that 96 counties contain 1,275,000 acres of land unaccounted for and the remaining 24 counties have a 290,000 acre surplus. Adequate mapping of the state would probably take 10 years and cost $5,000,000, but the project should be undertaken at once and pushed vigorously. The Governor considers the whole problem of assessment to be so important that he has requested the newly created Legislative Research Commission to study it. The commission has given the project priority after the three subjects the 1948 legislature directed it to inquire into—education, strip mining of coal, and a retirement system for state employees.

"Safeguarding of Kentucky's Natural Resources" is the subject of a bulletin recently published by the University of Kentucky. It was jointly prepared by the Bureau of Business Research and the Bureau of Government Research.

University of Kentucky — Rodman Sullivan

MISSISSIPPI

A number of recess committees of the legislature are reported to be actively engaged in their work. Among these are the committees checking on the financial structure and need for new revenue sources in the state's 82 counties and approximately 300 municipalities. Another is the committee studying the problems created in the 24 Mississippi counties lying in the Yazoo River basin and its watershed because of the loss of lands to the federal government for flood control. Probably the most active is the General Legislative (Roving) Investigation

Committee which is somewhat of a "roving grand jury." However, little will be known of its findings until it reports to the Governor or other agency with authority to act. No suits have as yet been filed. The Legislative Recess Highway Planning Committee has recently employed an outside agency to make a survey and there have been rumblings of dissatisfaction with this move. Major points of conflict appear to be main highways as against rural highways, and administration by the State Highway Commission as against administration by county supervisors. One probable result of the employment of the outside agency is the elimination of the prospects of a contemplated extraordinary session of the legislature to provide for a highway program.

Among tax anomalies, legally dry Mississippi's 10 per cent tax on illegal sales—the "black market" liquor tax—ranks high. Yet it is a producer of substantial revenues to the state. Recent follow-up investigation by the State Tax Collector of federal records of sales of liquor destined for Mississippi has revealed that the "black market" tax is being avoided by use of fictitious names by those purchasing for import into Mississippi. Besides pointing the way to better administration of Mississippi laws, this revelation raises the question of whether liquor sold state-tax exempt in wet states for delivery in Mississippi is being bootlegged back into the wet areas without paying the state tax.

The decision of the Mississippi Supreme Court in *Memphis Natural Gas Co.* v. *Stone* was affirmed by the U. S. Supreme Court (June 1948). Mississippi levies on foreign corporations a franchise tax of $1.50 per $1,000 of capital used, invested, or employed in the state as recompense for the "benefit and protection of the government and laws of the state." The company involved is a foreign corporation operating a pipeline from Louisiana to Tennessee through Mississippi. It does no intrastate business in Mississippi, is not authorized to do so, and has no agent for service of process nor an office within the state. The company's local activities of keeping in repair and otherwise manning its compression stations and pipelines running through the state were held to be not such a part of its interstate business as to be nontaxable under the commerce clause of the federal Constitution. The company was held liable for the Mississippi franchise tax which was construed to be not a tax on the privilege of engaging in interstate business, but a tax to compensate the state for the protection afforded local activities. The state did not exhaust its power to tax for this purpose by the imposition of ad valorem taxes on the company's property in Mississippi.

Agricultural leaders from all sections of the Cotton Belt met at Cleveland, Mississippi, on October 12 to hear Senator George D. Aiken of Vermont discuss the new formula for farm support prices which will go into effect in 1950 if the law adopted in the last session of Congress remains unchanged. Senator Aiken expressed two interesting opinions: (1) that under the formula the price of cotton probably cannot drop below 25 cents within the next several years, and (2) that a loan program providing price supports for cottonseed will be adopted if the Secretary of Agriculture carries out the intent of the law.

University of Mississippi DAVID MCKINNEY

NORTH CAROLINA

Despite the fact that cotton and corn prices are down to government support levels, autumn finds North Carolina agriculture in a highly prosperous condition. The cotton crop, still of great importance as a producer of cash income, is large, and the proceeds will be gratifying. Tobacco growers, whose output is modified by acreage quotas, has harvested a smaller crop than last year's, but have thereby kept prices at good levels.

In the cotton textile and hosiery industries, which are the heaviest employers of labor in the state, the recent softness of demand has brought producers to the necessity of deciding whether to build inventories or reduce the scale of operations. Available information indicates that both procedures are being followed. For North Carolina, the first significant break in the boom seems to be evident in the reduction to three- and four-day schedules of mills here and there. Consensus seems to be general among mill men that production and sales cannot be held up, at this stage at least, by any further price concessions that are feasible in view of the rigidity of costs.

While production in other major industries as well as retail trade seems to be holding up well, the general temper is more restrained than it was a few months ago. One hears more talk of a tendency to level off. It is impossible, however, to evaluate such a tendency, especially at the time of year when seasonal factors exercise so much influence upon the level of activity.

Davidson College C. K. Brown

SOUTH CAROLINA

The problems of public school education in South Carolina are highlighted in the report of the South Carolina Education Survey Committee to be presented to the 1949 General Assembly. The survey was authorized by legislative act in 1947 and has been under way over a period of about 18 months.

South Carolina in 1944–45 was found to enroll 23.54 per cent of the population in public schools whereas the national average was 17.59 per cent. Largely because of this high enrollment and low state wealth expenditures per pupil in average daily attendance were $65.17 in South Carolina as compared to an average per pupil expenditure of $76.95 for all southern states and $125.41 for the nation as a whole. Total current expenses were estimated at $34,500,000 for South Carolina in 1947–48 with the federal government providing 6 per cent, the local units 31 per cent, and the state 63 per cent.

The present method of allocating state aid largely on the basis of teachers needed was criticized in that it favors the retention of small schools and discourages consolidation. The system was further criticized in that it does not promote equality of educational opportunities. State and federal funds are apportioned without regard for the ability of local units to maintain schools on their own resources. It was found that the 10 South Carolina counties having the lowest per pupil expenditures were actually taxing themselves at a much higher rate for public school education than were the 10 counties having the greatest per pupil expenditure. Assessed valuations as between counties ranges from

$414 to $2,416 per pupil. The disparity in value betweel local units within the county is even greater.

The value of school plants per pupil in average daily attendance was $368 in white schools and $66 in Negro schools. Current expenses were $88 and $36 respectively and average salaries paid teachers $1,535 and $1,025. Transportation was provided for 35.7 per cent of white children and 1.8 per cent of Negro children. Much of the inequity in educational opportunity in South Carolina results not only from inequality in the distribution of wealth but also from the method of distributing state aid, which allots funds for teachers' salaries and transportation on the basis of "historical costs" with but very little for operating costs and nothing for school plant needs.

As a means of overcoming the inadequacy of program, inequality in opportunity, and inequity in sharing the costs so clearly revealed by the survey, the committee proposes a "Minimum Foundation Program" whereby the state would guarantee to every child the minimum education considered to be adequate. The county would become the unit for finance purposes with provision for equalization of educational opportunity as between counties and within each county. The committee suggests that approximately 20 per cent of the total cost of this program be met by county tax levies computed on a basis of ability to pay.

Elsewhere in the report there is record of other conditions which could be improved. Among these are weaknesses in the transportation system, a large number of one- and two-teacher schools with inadequate structures and equipment, undesirably low average daily attendance, and uncertain tenure status of many teachers.

The people of South Carolina undoubtedly desire a better public school educational program but progress in betterment is handicapped by constitutional provisions and by the custom of excepting local units from the provisions of general legislation, which has the effect of nullifying general laws. As an illustration the committee calls attention to the 1942 School Code which contains approximately 100 pages of general school law and 267 pages of local exceptions. Major recommendations on organization and administration include amending those provisions of the constitution which handicap the educational program, recodification of school laws to eliminate obsolete and confusing conditions, and the reestablishment of the state board of education as a body of lay members.

In total the report of the South Carolina Education Survey Committee is sufficiently complete and frank in its appraisal of the state public school program to serve as a basis and stimulus to individual and collective action of citizens toward its betterment. Time only can indicate the extent to which action will be taken.

Clemson College W. T. FERRIER

TENNESSEE

Tennessee's industrial expansion in the first six months of 1948 was well above the rate of development in the corresponding period of 1947. Estimates indicate that in the neighborhood of $30,000,000 has been expended or committed for investment in a total of about 122 new industrial plants or expansions of existing plants. Of these projects, 86 are new manufacturing plants and the remaining 36 are expansions.

These developments will mean approximately 2900 Tennessee workers will have new jobs. These figures are based on expansions of $25,000 investment or more and for which some specific commitment has been announced, actual construction begun, or operations started.

This trend in industrial expansion continued in the third quarter of 1948. New industries have come into the state in larger numbers than in the first two quarters of the year. Moreover, there is evidence of greater expansion among existing plants. The trend toward widespread distribution of the new industries over the state continues. This current decentralization is significant for several reasons. Markets growing up in new areas tend to attract industry, which in turn gives rise to new pools of skilled labor. An added incentive is the opportunity to create better working and living conditions.

This industrial expansion has resulted in employment reaching an all-time high within the state, even surpassing the wartime peak. There are now upward of 500,000 employed workers in the state who are covered by the state employment security department. Officials estimate that this number represents only about 50 per cent of the total number employed in the state. If this estimate is correct, this means that there are more than 1,000,000 persons employed in industry alone in Tennessee. Including agricultural workers and self-employed persons slightly less than one of every two of Tennessee's 3,148,000 population is employed.

The present estimates on employment are about 53 per cent above the 1940 figures, indicating the increase in employment since the prewar period. The textile industry leads in the employment field, but construction employment has continued to run high with new housing the most important item on the construction list. Tennessee has spent over $1,595,000,000 in new construction activity since 1939, ranking second among the states in the southeastern portion of the United States. Forecasts by major industries for the remainder of 1948 indicate that rising employment may be expected if shortages of essential materials do not occur. Defense contracts may provide the needed impetus for certain industries producing nondurable goods, while the usual pre-Christmas rise in trade and service employment begins early in October.

One virtually untapped source of further development is the awakening to the economic significance of the tourist trade. Tennessee has not been particularly "tourist conscious" and as a result a business opportunity of great significance has been overlooked. It is not enough that the tourist be induced to make one visit, he must be persuaded to come again and again.

That this opportunity is being realized is evidenced by the construction and improvement of motels, restaurants, resort hotels, service stations, boat docks, fishing and hunting camps, and hundreds of related businesses catering to the tourist and vacationer from one end of the state to the other. Over 557 new places to eat and sleep have been opened within the past year. As a result, Tennessee now has more than 7,179 restaurants and public dining rooms, and 1,464 hotels and tourist courts. All these places are inspected regularly to see that they are clean and safe.

It is estimated that the state can expect a $400 million annual tourist trade within a few years. This would mean a substantial increase over the $150 million share which was Tennessee's portion in 1947. Tourism is big business.

George Peabody College JAMES E. WARD

VIRGINIA

Business conditions in Virginia continued on a high level throughout 1948 with some indications of leveling off. To obtain a picture of Virginia's fiscal position during the past year consideration must be given to 1) expenditures, 2) revenues, and 3) surplus.

Expenditures for all purposes for the fiscal period ending June 30, 1948, amounted to $257 million as compared with $247 million for the preceding year. Of the $257 million, $245 million was for maintenance, and $12 million for capital outlay. Among the more important increases were education, highways, and public welfare. Of the $13 million total increase, approximately $8 million was spent for education. Expenditures for the Alcoholic Beverage Control Board increased slightly from $71 million in 1947 to $72 million in 1948. There was a sharp decrease in the expenditures of the Unemployment Compensation Commission. This would seem to reflect a more stable employment situation in the state. The greater part of capital outlay costs was for roads, schools, and hospitals.

State revenues showed an increase from $252 million in 1947 to $271 million in 1948, an increase of $19 million. The following table gives an analysis of state revenues according to classes for the fiscal year 1947–1948.

State Revenues According to Classes

CLASS	AMOUNT (000 omitted)	PERCENTAGE OF TOTAL
I. Taxes	$98,264	36
Motor vehicle fuel	(35,375)	(13)
Income	(24,772)	(9)
Payroll	(10,535)	(4)
II. Rights and Privileges	21,234	8
Licenses & permits	(18,511)	(7)
III. Sales of Property and Commodities	91,980	34
Alcoholic liquors	(90,969)	(33)
IV. Assessments for Support of Special Services	719	03
V. Institutional	19,323	7
Tuition and student fees	(10,102)	(3)
VI. Interest, Dividends, Rents	3,820	1.5
VII. Grants and Donations	30,287	13.0
Grants by fed. gov't	(29,584)*	(10.9)
VIII. Fines, Forfeitures, etc	1,915	0.7
IX. Miscellaneous	1,281	0.5

* A decrease of $3,197,000

An analysis of the revenue situation for the last fiscal year reflects a strong financial condition. Approximately 66 per cent of the total was derived from

five sources, namely, sales of alcoholic liquors, 37 per cent, motor vehicle fuel tax, 13 per cent, income taxes, 9 per cent, and grants from the federal government, 11 per cent. It is evident that the state is still profiting from the high level of business conditions.

A summary of operations indicates that Virginia ended the fiscal year with a surplus of $87 million, as compared with $85 million as of July 1, 1947. Of the $87 million, $40 million was in the General Fund Surplus, and $50 million in Investments for the General Fund and Special Funds. Expenditures from the Special Funds Accounts exceeded revenues by about $2 million, thereby reducing the total surplus for the year. At least three factors have contributed to the surplus in the state, namely, 1) scarcity of certain materials, 2) inflation, and 3) funds held for the state debt.

* * * * *

A review of agricultural conditions presents an optimistic picture. Virginia farmers have had another good year. One of the favorable factors has been good crop conditions. There have been large increases in practically all of the major crops, and with farm prices still high, the farmers' gross income has been high. The record-breaking corn crop will be sold on more favorable terms than the price of corn indicates because most of it will move to the market in the form of meat selling at relatively high prices. While the production of livestock has been off somewhat, with the reduction in the cost of feed this should show an improvement next year. Virginia farmers are receiving over 50 per cent of their income from livestock. Even if there should be a drop in farm prices next year, Virginia farm income should be only slightly affected due to this weight of livestock prices. The anticipated increase in flue-cured tobacco allotments is another favorable factor. The shortage of farm machinery is easing considerably with many types of machines now available. The mechanization of farms in the state has become a permanent trend, and may be expected to continue unless there is a sharp recession in farm prices.

The most unfavorable factor in the picture is the increasing cost of farm operations. Farm costs are the highest on record. High labor costs can be somewhat alleviated by mechanizing the farms, but rising materials costs such as fertilizers, insecticides, and machinery parts tend to reduce the net income of the farmer. Another unfavorable factor is the scarcity of certain heavy machinery such as tractors, trucks, and automobiles. Scarcity coupled with rising prices makes it pretty difficult for the farmers.

The picture for 1949 appears favorable. With the policy of government support of farm prices prevailing, there is not much possibility of a further drop in farm prices. Any decrease that does occur will be offset by a decline in the prices of certain consumer goods, especially cotton goods, clothing, and food. Also, Virginia farmers are in a favorable financial position because of resources in cash and bonds, and relatively small debt. For the country at large on January 1, 1948, farmers' liquid assets were $22 billion and their debts $9 billion. Thus liquid assets were two and a half times debts.

University of Richmond HERMAN P. THOMAS

PERSONNEL NOTES

R. S. Adden, after serving as an instructor at The Citadel, took a year's leave of absence to complete work for his master's degree at Wharton and then returned to The Citadel as assistant professor of business administration.

J. D. Anderson has been appointed instructor in economics, College of Business Administration, University of Florida.

Paul H. Anderson, formerly director of marketing research for the U. S. Department of Commerce, is now professor of marketing at Loyola University in New Orleans.

D. W. Andrews has been appointed instructor in accounting at Wofford College.

L. D. Ashby has been promoted to associate professor of economics at the University of North Carolina.

S. W. Atkins, agricultural economist, Bureau of Agricultural Economics, who has been working in cooperation with the Tennessee Agricultural Experiment Station, has been transferred to a cooperative project with the Tennessee Valley Authority. His headquarters remains in Knoxville. George H. Aull of Clemson College was elected president of the Southern Economic Association at its last annual meeting.

Andrew J. Bartley has come from the University of Missouri to join the staff at North Carolina State College as assistant professor of economics.

Jack N. Behrman of Davidson College is on leave of absence to do further graduate work at Princeton University.

Thomas S. Berry, formerly with the Atlanta Regional Office of the Public Housing Administration, has been appointed professor of economics at Millsaps College.

G. W. Biggs has been appointed assistant professor of economics at Clemson College.

William H. Bizzell has resigned as part-time instructor in economics at Mississippi Delta State Teachers College.

Furman P. Bowers has been appointed instructor in agricultural economics at the University of Tennessee.

Richard C. Brewer, formerly instructor in the University of Minnesota, has joined the faculty as assistant professor of accounting at the University of Alabama.

Donald C. Bunch has been appointed instructor in business administration at The Citadel.

Marvin H. Butler, formerly of the University of Illinois, has been appointed assistant professor in the Department of Economics, Agricultural and Mechanical College of Texas.

J. Ray Cable, who recently resigned as president of Missouri Valley College, is now head of the department of economics at Stetson University.

Reynold Carlson has resigned as assistant professor of economics at Johns Hopkins University to become professor of economics at Vanderbilt University.

Will H. Carroll has been appointed instructor in economics at the University of Alabama.

David Chambers, assistant professor of statistics at the University of Tennessee, is on leave of absence for the academic year 1948–1949 to complete his graduate work at Stanford University.

T. B. Chisholm has resigned from the faculty of the Georgia School of Technology.

Carl J. Clamp, formerly teaching assistant at Massachusetts Institute of Technology, has been appointed instructor in economics at Duke University.

Emma Katharine Cobb has been promoted to assistant professor in commerce at Winthrop College.

Marion K. Coley has been appointed instructor in economics at the University of Alabama.

Camille Wright Cook has been appointed instructor in business law in the Department of Economics and Business Administration at Alabama Polytechnic Institute.

Walter H. Delaplane, head of the Department of Economics at St. Lawrence University for the last two years, has become head of the Department of Economics at the Agricultural and Mechanical College of Texas.

H. E. Dennison, formerly head of the Department of Industrial Management at the Georgia School of Technology, is now director of the newly established School of Industrial Management.

Richard T. Eastwood of the University of Alabama has been granted a year's leave of absence to continue graduate work at the University of Wisconsin.

E. A. Fails, a graduate of Southwestern Institute of Technology, and lately general manager of Downy-Fails Supply Company, has been appointed assistant professor of economics at North Carolina State College.

Rendigs Fels has been appointed assistant professor of economics at Vanderbilt University.

Wallace T. Ferrier of Clemson College has been appointed the *Southern Economic Journal's* correspondent for South Carolina.

Howard A. Folts has been appointed acting instructor in economics and acting director, Commerce Extension Service, for the academic year 1948–1949, at the University of Alabama.

L. C. Fowler, acting assistant professor of economics at the University of Mississippi during 1947–1948, is now attending New York University.

Roy E. Geeting, who formerly taught economics at Edison College, is now associate professor of business administration, University of Tampa.

Paul V. Grambsch has returned to the University of Mississippi as acting assistant professor of economics after a year as assistant in economics at Massachusetts Institute of Technology.

Melvin L. Greenhut has joined the staff of the Department of Economics and Business Administration at Alabama Polytechnic Institute as assistant professor in finance.

Paul M. Gregory, formerly at the Woman's College of the University of North Carolina, has been appointed associate professor of economics at the University of Alabama.

Emile P. Grenier has joined the faculty of the University of Mississippi as assistant professor of economics. He was formerly special assistant to Zone Administrator, War Assets Administration.

William E. Haines, a graduate of Duke University Law School, has been appointed instructor in business law at Duke University.

William C. Hall, a graduate of the Texas College of Arts and Industries, has come to North Carolina State College as assistant professor of economics.

William Rogers Hammond is now associate professor of economics and business administration at the Atlanta Division of the University of Georgia.

Frank A. Hanna has come from the Bureau of the Census in Washington, D. C., to Duke University where he is associate professor of statistics.

Frederick K. Hardy, formerly on the staff of Michigan State College and Emory University, is now associate professor of marketing at the University of Florida.

Durwood C. Harvey, who has been doing graduate work at the University of Tennessee, has been appointed instructor in economics and commerce at the University of Chattanooga and is teaching courses in accounting.

Stuart J. Higginbotham, formerly visiting lecturer in retailing at the University of Pittsburgh and New York University, has been appointed assistant professor of retailing at the University of Chattanooga and is in charge of a new program of cooperative retail training.

Lewis E. Hill is now assistant professor of economics at Furman University.

Alton B. Hodgkins, of Centre College, taught at the University of Chattanooga during the summer session of 1948.

Ben T. Holden has been appointed part-time instructor in economics at Duke University.

Calvin B. Hoover of Duke University served druing the past summer on the staff of the Economic Cooperation Administration in Paris, France. He was chief of the Office of Program Review and Recovery Progress in the Office of the Special Representative in Europe and also acted as economic advisor to Mr. Harriman.

A. B. Horsfall has been appointed assistant professor of economics at the University of Florida.

Charles Houston, formerly corporate analyst with the Army Price Adjustment Board, is now associate professor of business administration at the School of Business Administration, Emory University.

H. J. Hudek has been appointed associate professor of economics at Alabama Polytechnic Institute.

William J. Hudson, associate professor of transportation at the University of Tennessee, is on leave of absence for the academic year 1948–1949 to complete his graduate work at Stanford University.

Thomas N. Humble, formerly assistant professor at the University of Florida,

has been appointed associate professor of accounting at the University of Alabama.

Don D. Humphrey, formerly with OMGUS in Germany as economic advisor to General Clay, has been appointed professor of economics at Duke University.

George B. Hurff, formerly on the staff at Washington and Jefferson College, has been appointed research economist, Bureau of Business Research, University of Florida.

M. Leslie Infinger, after teaching at Wofford College, has gone to The Citadel as assistant professor of business administration.

Charles C. Jacobs, Jr., has resigned as part-time instructor in economics at Mississippi Delta State Teachers College.

Robert W. Johnson, formerly at Northwestern University, is now assistant professor of economics and business administration at Southwestern.

Pearce C. Kelley, who has been associate professor and head of the Marketing Department at the University of Arkansas, has joined the faculty of the University of Mississippi as associate professor of economics.

Harold Kelso has been appointed professorial lecturer in business administration at George Washington University.

R. G. Kenabrew has been appointed assistant professor of economics at the University of Mississippi.

Wylie Kilpatrick, formerly on the staff of the Governments Division, Bureau of Census, and recently visiting professor of economics at Duke University, has been appointed research economist, Bureau of Business Research, University of Florida.

Douglas W. Lambert has accepted a teaching fellowship in economics at Alabama Polytechnic Institute.

Marian A. Lambeth has joined the staff of Queens College as an instructor in economics.

Marc C. Leager of North Carolina State College, University of North Carolina, died December 7. He had served on the editorial board of the *Southern Economic Journal* since 1939.

James H. Lemley has been appointed instructor in economics at the University of Mississippi.

Mary Frances Lide has been made head of the Department of Commerce at Lander College.

Mae Wyan Locke has been promoted to the rank of assistant professor in the Department of Commerce at Winthrop College.

Howard O. Long, formerly of Carson-Newman College, has been appointed to an assistant professorship in economics at Maryville College.

Dan M. McGill has been appointed Julian Price associate professor of life insurance at the University of North Carolina.

Roland N. McKean has been appointed assistant professor of economics at Vanderbilt University.

Lionel W. McKenzie, Rhodes Scholar, and Social Science Research Council Fellow at Oxford during the past two years, has joined the faculty of Duke

University as assistant professor of economics. He will devote his time particularly to the principles course.

Erskine W. McKinley, formerly at Birmingham Southern College, has been appointed assistant professor of economics at Alabama Polytechnic Institute.

David McKinney of the University of Mississippi has been appointed correspondent from Mississippi for the *Southern Economic Journal*.

F. E. McVay of North Carolina State College, University of North Carolina, has been appointed editor of the *Southern Economic Journal*.

C. Arnold Matthews has resigned from his position with the U. S. Treasury Department to join the staff of the University of Florida as assistant professor of economics.

Lee J. Melton, Jr., has been appointed assistant professor of economics at Mississippi Delta State Teachers College.

James F. Miles of Clemson College has taken a year's leave of absence to work on his doctorate at Cornell University.

W. H. Milner has resigned at The Citadel to go to Memphis State College.

H. H. Mitchell is serving as a part-time instructor in economics at the University of North Carolina.

James F. Moore, formerly at Tulane University, has been appointed instructor in accounting, University of Florida.

Karl Morrison has been promoted to associate professor of economics at the University of Mississippi.

Lloyd F. Morrison has been appointed associate professor of accounting at the University of North Carolina.

Duncan W. Murphy, formerly Veteran's Representative at the University of Alabama, has joined the staff as instructor in management.

Walter C. Neale has been appointed instructor in economics at the Woman's College of the University of North Carolina.

James C. Nelson of the Department of Economics, Washington State College, spent the summer in Olympia, Washington, as economic consultant to the Joint Fact-Finding Committee on Highways, Streets and Bridges. His assignment was the preparation of a study to determine how to raise funds for a long-range highway and street construction program.

John Phillip Noland, Jr., has been appointed instructor in accounting at the University of Alabama.

John T. O'Neil, associate professor of finance at the University of North Carolina, was awarded a fellowship by the Joint Committee on Education of the Association of Security Dealers. He spent the latter part of the summer of 1948 studying at first hand the operations of the security markets in New York.

D. B. Odom has joined the staff of the College of Business Administration, University of Florida, as an instructor in accounting.

Wendell M. Patton, Jr., has been appointed professor of economics at Lander College.

Norman Pauling has resigned as instructor in economics at Vanderbilt University to resume graduate study.

George S. Peck, formerly instructor in economics at Indiana University, has been appointed assistant professor at the University of Mississippi.

Richard Powers, formerly assistant professor of economics at Clemson College, has been appointed associate professor of business adminstration at Wake Forest College.

King S. Pushard, after teaching at Westbrook Junior College and obtaining his master's degree at Boston University, has joined The Citadel staff as assistant professor of business administration.

E. G. Rasmussen, associate professor of business administration at Vanderbilt University, has been granted a leave of absence for a year to accept a General Education Board fellowship for study at the Harvard School of Business Administration.

Benjamin U. Ratchford of Duke University served during the past summer on the staff of the Economic Cooperation Administration in Paris, France. He was deputy chief of the Office of Program Review and Recovery Progress in the Office of the Special Representative in Europe.

M. J. Roberts, formerly on the research staff of the Commerce Department, TVA, is now assistant professor of economics, University of Florida.

Fred R. Robertson, who received his masters degree in agricultural economics at the University of Tennessee in August 1948, has joined the staff of the Agricultural Relations Division, TVA.

L. A. Robinson has been appointed teaching fellow in economics at Alabama Polytechnic Institute.

Gaines M. Rogers, formerly chairman of the Department of Economics at Baylor University, has been appointed head of the Department of Business Administration of Wake Forest College.

Betty H. Sawyer has been appointed instructor in marketing at the University of Alabama.

P. K. Seidman, president of Memphis College of Accountancy, is offering courses in CPA review and federal income taxes.

Gordon Siefkin, dean of the School of Business Administration at Emory University, was elected vice president in charge of membership of the Southern Economic Association at its last annual meeting.

Allen N. Sievers has resigned from the Woman's College of the University of North Carolina to accept an appointment at Tufts College.

James E. Spear, formerly of the University of Pittsburgh, has been appointed teaching fellow in economics at Alabama Polytechnic Institute.

J. H. D. Spencer is serving as instructor of economics at the University of North Carolina.

R. Campbell Starr has joined The Citadel staff as assistant professor of business administration.

George W. Stocking of the Vanderbilt University was elected editor of the *Southern Economic Journal* at the last annual meeting of the Southern Economic Association.

R. P. Stovall has resigned as assistant professor of economics at the University of North Carolina.

George W. Summerhill has been appointed assistant professor of accounting, University of Florida.

Ernst W. Swanson, formerly professor of economics at Butler University, is now professor of economics at the School of Business Administration, Emory University.

C. C. Thompson is a part-time instructor in economics at the University of North Carolina.

Henry Turner is now assistant professor of economics at Mississippi Southern College.

Ernest Walker is serving as part-time instructor in economics at Duke University.

E. S. Wallace, head of the Department of Economics and Business Administration at Millsaps College, has been appointed registrar of the college.

Malcolm E. Wallace has joined the Economics Department at North Carolina State College as assistant professor, following recent graduate work at Columbia University.

Horace H. Washburn, formerly at the University of Wichita, has been appointed associate professor of finance at the University of Alabama.

Normal E. Weir has been appointed assistant professor of economics at Mississippi State College.

William H. Wesson, Jr., formerly of Duke University, is associate professor of economics and commerce at the University of Chattanooga and is acting head of the department.

Frank Williams, assistant professor of statistics at the University of Tennessee, is on leave of absence for the academic year 1948–1949 to complete his graduate work at Stanford University.

M. J. Williams is serving as part-time instructor in economics at Duke University.

Ned Williams has resigned as instructor in economics at the University of Mississippi.

Robert B. Williamson, graduate of the University of Texas, has come to North Carolina State College as instructor in economics, following graduate work at George Washington University.

Roy Wood has been appointed instructor in economics at Clemson College.

David McCord Wright of the University of Virginia was elected vice president in charge of program of the Southern Economic Association at its last annual meeting.

John W. Wyatt has been appointed instructor in business law, College of Business Administration, University of Florida.

The following names have been added to the membership of the Southern Economic Association:

J. D. Anderson, Box 2772, University Station, Gainesville, Fla.

J. M. Buchanan, College of Business Administration, University of Tennessee, Knoxville, Tenn.

Ernest C. Collins, College of Business Administration, University of Florida, Gainesville, Fla.

Arthur L. Cunkle, College of Business Administration, University of Florida, Gainesville, Fla.

Harrison B. Fagan, Department of Business, Commerce, and Economics, University of Tampa, Tampa, Fla.

Rendigs Fels, Vanderbilt University, Nashville, Tenn.

Roy E. Geeting, University of Tampa, Tampa, Fla.

Fred K. Hardy, College of Business Administration, University of Florida, Gainesville, Fla.

John S. Henderson, College of Business Administration, University of Florida, Gainesville, Fla.

Thomas L. Hisgen, 431 W. Ponce de Leon Avenue, Decatur, Ga.

J. Fred Holly, College of Business Administration, University of Tennessee, Knoxville, Tenn.

Henry S. Johnson, Farm Credit Administration, Columbia, S.C.

Roy A. Jones, University of Tampa, Tampa, Fla.

Pearce C. Kelley, University of Mississippi, University, Miss.

Wylie Kilpatrick, Bureau of Economic and Business Research, University of Florida, Gainesville, Fla.

R. B. McGehee, 2080 North Decatur Road, Atlanta, Ga.

Roland N. McKean, Vanderbilt University, Nashville, Tenn.

Jesse W. Markham, Vanderbilt University, Nashville, Tenn.

John Masek, 117 East Yale Avenue, Orlando, Fla.

Louis A. Montag, 1529–31 First National Bank Building, Atlanta, Ga.

James A. Morris, 3104 Heyward Street, Columbia, S. C.

Charles E. Ratliff, Jr., Davidson College, Davidson, N. C.

G. Lawrence Roberts, Jr., University of Tampa, Tampa, Fla.

Frank McP. Sinclair, Davidson College, Davidson, N. C.

Ralph D. Turlington, College of Business Administration, University of Florida, Gainesville, Fla.

Frederick A. Webb, University of Tampa, Tampa, Fla.

John N. Webb, P. O. Box 193, Melrose, Fla.

W. H. Wesson, Jr., Department of Economics and Commerce, University of Chattanooga, Chattanooga, Tenn.

Arthur M. Whitehill, University of Virginia, Charlottesville, Va.

NOTES

SOUTHERN ECONOMIC ASSOCIATION

Program of the Eighteenth Annual Conference, held at the Atlanta Division, University of Georgia, 24 Ivy Street, S.E., Atlanta, Georgia, November 19–20, 1948

FRIDAY, NOVEMBER 19, 1948

Registration, Atlanta Division, University of Georgia, 24 Ivy Street, S.E.

9:00 a.m.—Meeting of the Executive Committee

10:00 a.m.—Morning Session

Chairman: James E. Gates, University of Georgia

Address of Welcome: George M. Sparks, Director, Atlanta Division, University of Georgia

Topic: Industrial Integration and Trade Unionism

1. Integration in the Textile Industry and Its Economic Implications
   Solomon Barkin, Textile Workers Union of America
2. The Present Status of Trade Unionism in the South
   Frank T. de Vyver, Duke University

   Discussion:
   T. W. Douglas, University of Virginia
   G. W. Stocking, Vanderbilt University

2:00 p.m.—Afternoon Session

Chairman: Rhea Blake, National Cotton Council

Round Table Topic: Agricultural and Economic Problems of the Cotton Belt

1. Adjustments Toward Efficient Agriculture in the South
   Frank J. Welch, Mississippi State College
2. Competitive Position of Cotton
   M. K. Horne, Jr., University of Mississippi
3. Foreign Outlets for American Cotton
   P. K. Norris, Office of Foreign Agricultural Relations
4. Industrial and Non-Farm Developments
   John V. Van Sickle, Wabash College
5. General Discussion
   L. P. Gabbard, Agricultural and Mechanical College of Texas
   Glenn R. Smith, Office of Experiment Stations

6:00 p.m.—Dinner Meeting

Of the Board of Editors and State Reporters of The Southern Economic Journal and Officers of the Association at the Henry Grady Hotel

8:00 p.m.—Evening Session

Chairman: G. T. Schwenning, University of North Carolina

Some Aspects of the European Recovery Program
Calvin B. Hoover, Duke University

SATURDAY, NOVEMBER 20, 1948

9:00 a.m.—Business Meeting

10:00 a.m.—Morning Session

Chairman: Miss Gladys Boone, Sweet Briar College

Topic: International Aid Plans and the Southern Economy

1. The International Monetary Fund

E. R. Hicks, International Monetary Fund

Discussion:

Raymond F. Mikesell, University of Virginia

Gregor Sebba, University of Georgia

W. Husmann, Clemson College

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SOCIAL SCIENCE FORUM

The Social Science Forum of the Woman's College of the University of North Carolina has been endowed as a memorial to the late Dean Harriet Elliot and will be an annual occasion. At the first forum (February 1948) 27 colleges and universities in six states were represented by some 400 delegates. Attendance at the seven sessions varied from 1200 to 2500. The second forum was held November 11, 12, 13, 1948, with "Freedom and Security" as the central theme.

Authorities in the various social sciences led discussion groups and participated in panels. Among the leaders were Vera Micheles Dean, research director of the Foreign Policy Association; Max Lerner, columnist for the New York Star; Broadus Mitchell of Rutgers University; C. O. Hardy, director, Committee on the Economic Report to the President, U. S. Congress; Gardner Murphy, chairman, Psychology Department, College of the City of New York; William Carleton, Chairman, Social Science Division, University of Florida; U. S. Senator John Sparkman of Alabama.

BOOKS RECEIVED

The Union Challenge to Management Control. By Neil W. Chamberlain. New York: Harper & Bros., 1948. Pp. x, 338. $4.50.

The Labor Force in Louisiana. By Rudolf Heberle. Baton Rouge: Louisiana State University Press, 1948. Pp. x, 189. $2.00.

The Location of Economic Activity. By Edgar M. Hoover. New York: McGraw-Hill Book Co., 1948. Pp. xv, 310. $3.75.

Gross Product of Puerto Rico, 1940–1944. By Daniel Creamer and Henrietta L. Creamer. Rio Piedras: University of Puerto Rico, 1948. Pp. 79.

Balance of External Payments of Puerto Rico, 1942–1946. By Robert L. Sammons and Belen H. Cestero. Rio Piedras: University of Puerto Rico, 1948. Pp. 65. 50¢.

Problems in Price Control: Stabilization Subsidies. By Seymour E. Harris and Philip Ritz. Washington: U. S. Government Printing Office, 1948. Pp. xii, 241. 45¢.

Die Wechselseitige Konjunkturabhängigkeit von Landwirtschaft und Industrie in den USA, 1919–1941. By Eduard Wyttenbach. Berne: Francke, 1948. Pp. 250. Paper, s. fr. 28.

Decimacuarta Asamblea General Ordinaria de Accionistas. Mexico, D. F.: Nacional Financiera, 1948. Pp. 118.

Economia Internazionale, Vol. I, No. 2, May 1948. Published by the Camera di Commercio, Industria e Agricoltura, Genoa, Italy.

Revista de Economia e Financas, Vol. III, No. 3, 1947. Published by the Instituto de Economia e Financas de Bahia, Brazil.

Say It With Figures. By Hans Zeisel. 2nd ed. New York: Harper & Bros., 1948. Pp. xx, 250. $3.00.

Business Management Action Against Depression: Danger Signs—Some Do's and Don'ts Washington: Chamber of Commerce of the United States of America, 1948. Pp. 16. 20¢.

Economic History of Europe. By Herbert Heaton. Rev. ed. New York: Harper & Bros., 1948. Pp. xiv, 792. $5.00.

New Threats to American Freedoms. By Robert E. Cushman. New York: Public Affairs Committee, 1948. Pp. 32. 20¢.

The Land Authority and Democratic Processes in Puerto Rico. By Walter E. Packard. Rio Piedras: University of Puerto Rico, 1948. Pp. 53.

Comparative Economic Systems. By William N. Loucks and J. Weldon Hoot. 3rd. ed. New York: Harper & Bros., 1948. Pp. xv, 836. $5.00.

Readings in Economics: Principles and Problems. Compiled and edited by Walter Adams and Leland E. Traywick. New York: Macmillan Co., 1948. Pp. xi, 520. $3.00.

Trends in the Tenure Status of Farm Workers in the United States Since 1880. By Carl C. Taylor and others. Washington: U. S. Department of Agriculture, 1948. Pp. 36.

Anne Arundel County, Maryland: Its Economic Development and Potentials. College Park, Md.: Bureau of Business and Economic Research, College of Business and Public Administration, University of Maryland, 1948. Pp. 79.

Farm Real Estate Activity in Nine Southeastern Counties, January 1–December 31, 1947. By William H. Scofield. Washington: U. S. Department of Agriculture, 1948. Pp. 11.

Soviet Views on the Post-War World Economy: An Official Critique of Eugene Varga's "Changes in the Economy of Capitalism Resulting From the Second World War." Translated by Leo Gruliow. Washington: Public Affairs Press, 1948. Pp. 125. $3.00.

Disposal and Peacetime Use of Crown Plant Buildings. Ottawa, Canada: Department of Reconstruction and Supply, 1948. Pp. 47.

America and the International Trade Organization. By William L. Clayton and others. Washington: Chamber of Commerce of the United States, 1948. Pp. 101. $1.00.

A Survey of Contemporary Economics. Edited by Howard S. Ellis. Philadelphia: Blakiston Co., 1948. Pp. xv, 490. $4.75.

Government and Industry: A Survey of Machinery for Consultation and Co-operation. London: His Majesty's Stationery Office, 1948. Pp. 32. 9d net.

Inheritance and Estate Taxes in Kentucky. Lexington: Bureau of Business Research, University of Kentucky, 1947. Pp. 104.

Economics and Problems of Labor. By Philip Taft. 2nd ed. New York: Stackpole & Heck, 1948. Pp. xx, 822. $5.00.

The American Economy: Its Problems and Prospects. By Sumner H. Slichter. New York: Alfred A. Knopf, 1948. Pp. vii, 214. $2.75.

Foreign Economic Policy for the United States. Edited by Seymour E. Harris. Cambridge, Mass.: Harvard University Press, 1948. Pp. xiii, 490. $6.00.

Economics. By Fred Rogers Fairchild and others. 3rd ed. New York: Macmillan Co., 1948. Pp. xxviii, 859. $4.50.

Historical Sociology: Its Origins and Development. By Harry Elmer Barnes. New York: Philosophical Library, 1948. Pp. x, 186. $3.00.

The Board of Directors in Small Corporations. By Myles L. Mace. Boston, Mass.: Graduate School of Business Administration, Harvard University, 1948. Pp. 92. $2.00.

Operating Results of Illinois Retail Jewelry Stores in 1947. By David J. Luck. Urbana: University of Illinois, 1948. Pp. 31.

Marketing: Principles and Methods. By Charles F. Phillips and Delbert J. Duncan. Chicago: Richard D. Irwin, 1948. Pp. x, 729. $5.00.

Modern Corporation Finance. By William H. Husband and James C. Dockeray. Rev. ed. Chicago: Richard D. Irwin, 1948. Pp. xiv, 690. $5.00.

Procurement: Principles and Cases. By Howard T. Lewis. Chicago: Richard D. Irwin, 1948. Pp. xi, 745. $5.00.

The Joint Safety Program of The Forstmann Woolen Company and Local 656 Textile Workers Union of America, CIO. By Richard H. Wood and John J. Pearce, Jr. New Brunswick, N. J.: Rutgers University, 1948. Pp. 47.

Mathematics of Finance. By Paul M. Hummel and Charles L. Seebeck, Jr. New York: McGraw-Hill Book Co., 1948. Pp. xi, 365. $4.00.

Economic Problems of Modern Life. By S. Howard Patterson and Karl W. H. Scholz. 4th ed. New York: McGraw-Hill Book Co., 1948. Pp. xx, 782. $4.75.

Economics of International Trade. By Hugh B. Killough and Lucy W. Killough. 2nd ed. New York: McGraw-Hill Book Co., 1948. Pp. xiv, 463. $5.00.

European Ideologies: A Survey of 20th Century Political Ideas. Edited by Feliks Gross. New York: Philosophical Library, 1948. Pp. xv, 1075. $12.00.

Dictionary of Modern Economics. By Byrne J. Horton and others. Washington: Public Affairs Press, 1948. Pp. ix, 365. $5.00.

Training Employees and Managers for Production and Teamwork. By Earl G. Planty and others. New York: Ronald Press Co., 1948. Pp. xiii, 278. $5.00.

The European Recovery Program. By Seymour E. Harris. Cambridge: Harvard University Press, 1948. Pp. xvii, 309. $4.50.

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